The Incorporated Accountants' Journal

The Official Organ of

The Society of Incorporated Accountants and Auditors

The Incorporated Accountants' Journal *is published monthly, on the first day of each month, at an Annual Subscription of* 12*s.* 6*d., which includes postage to all parts of the world. The price of a single copy is* 1*s.* 3*d., postage extra.*

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLV OCTOBER, 1933 No. 1

Contents.

	PAGE
Professional Notes ...	1
Receivers and their Liabilities (Article)	3
Capitalist Combinations in Industry (Article) ...	5
London Passenger Transport Arbitration Tribunal	7
Society of Incorporated Accountants and Auditors: Membership	8
Obituary	10
Correspondence: Sale Agreements	10
Capitalist Combinations in Industry ...	10
Depreciation and Obsolescence. Papers by Mr. H. G. Howitt, F.C.A., and Mr. A. S. Fedde, C.P.A.	11, 22
Company Law Amendment: Chambers of Commerce Recommendations	34
Changes and Removals	38
Reviews	38
Incorporated Accountants Students Society of London: Prize Essay Competition	39
Income Tax and Wasting Assets. Lecture by Mr. J. J. Todd, Inspector of Taxes	40
District Societies of Incorporated Accountants ...	43
A Discharge Reduced	45
Scottish Notes	46
Legal Notes ...	46

Professional Notes.

The Lord Chancellor has now appointed the Arbitration Tribunal whose duty it will be to settle differences arising under the provisions of the London Passenger Transport Act. The Tribunal consists of three members, one of which is Sir James Martin, F.S.A.A. It may be remembered that Sir James was a member of Mr. Justice MacKinnon's Committee appointed in 1926 by a former Lord Chancellor (Viscount Cave) to consider and report what alterations were considered desirable in the Law of Arbitration. He was also Chairman of the Committee appointed by the Federation of Chambers of Commerce of the Empire which presented a report containing draft rules for the guidance of Arbitrators appointed by Chambers of Commerce. This report was adopted at the Congress of Chambers of Commerce held in Capetown in 1927. The names of the full Tribunal appear in another column.

The 36th Annual Report of King Edward's Hospital Fund for London relating to the year 1932 has now been issued. The revenue account shows that the total general income for the year amounted to £318,000, as against £335,000 for 1931, whilst the distributions to hospitals and convalescent homes amounted to £300,000, as compared with £275,000 in the preceding year. There were further special grants to hospitals towards expenditure under the superannuation scheme for nurses and hospital officers amounting to £20,000 in 1932, and £19,313 in 1931. The total sum distributed amongst hospitals and convalescent homes during the last ten years, including all special distributions, amounted to £3,097,167, and since the foundation of the fund in 1897 a total net amount of £7,382,021 has been disbursed.

The Times, in commenting on the discussion at the recent International Congress on Accounting respecting the responsibility of auditors in regard to balance sheets and profit and loss accounts, says: "A balance sheet can be judged better with a profit and loss account than without it. It applies a sort of acid test to the balance sheet, which over a series of years is highly valuable. Net profit may be difficult to define, but if examined in relation to the balance sheet over a period of time, the real position of a company cannot remain obscure to the shareholder who cares to take the trouble to study the accounts with which the directors are obliged to supply him."

In connection with a case which came up for hearing at the Central Criminal Court last month, it was stated on behalf of the Inland Revenue that at the preliminary hearing of the case at the Windsor Police Court the local Inspector of

Taxes was subpœnaed by the prosecution to produce certain accounts relating to the defendant's affairs, and also a return of his employees. Privilege was claimed by the Inspector of Taxes on the ground that any communication made to the Inland Revenue was absolutely secret, but the local magistrates refused to admit his claim. Judge Whiteley, before whom the case was heard, said that such evidence was not admissible in civil cases, and clearly it was inadmissible in criminal cases.

The report of the Special Committee of the Associated Chambers of Commerce on Company Law Amendment, which we publish this month, will be read with interest. The Committee is a large one, and is representative not only of trade and commerce, but also of banking and the Stock Exchange. It also includes a number of professional accountants, one of whom (Mr. H. Lakin-Smith, F.C.A.) is the chairman. The report deals with numerous matters concerning the affairs of Joint Stock Companies, including those which were the subject of the recommendation of the Special Committee of the Society of Incorporated Accountants and Auditors last year. As regards these particular points the Chambers of Commerce appear to be in accord with the Society, as the whole of the Society's recommendations are, in substance, advocated in the report.

Briefly stated the Society's recommendations were: That the profit and loss account should show the true balance of profit or loss for the period of the account, and that debits or credits of an abnormal character, or reserves from a previous period no longer required, should be stated separately; that free reserves should be disclosed on the face of the balance sheet, but that this should not apply to reserves in the nature of provision for estimated losses or expenses not definitely ascertainable at the date of making up the accounts; and that there should be stated on the face of the accounts the total amount of the ascertained profits or losses of subsidiary or sub-subsidiary companies to the extent of the holding company's interest therein, in so far as such profits or losses are not shown in the profit and loss account of the holding company. As regards these profits the Chambers of Commerce take the view that the information should be given in the statement by the directors which is required to be annexed to the balance sheet.

Other points covered by the report include a recommendation that, within certain limits, fully paid shares should not be required to have distinctive numbers; that allotment letters should not be posted until the cheques are cleared, especially those relating to underwriters; that subsidiary companies should not be allowed to purchase shares of the holding or parent company which controls them; that secured liabilities should be stated in the balance sheet separately from other liabilities; that the profit and loss account should show under a separate heading the total income from investments held by the company other than investments in subsidiary companies; that every member of a company should be entitled to receive a copy of the profit and loss account as well as the balance sheet; and that the auditors, in making their report, should deal not only with the balance sheet, but also with the profit and loss account.

As regards consolidated balance sheets, the Committee say that, although the principle of such balance sheets has been adopted with advantage in many cases, there are obviously many other cases where their preparation would present considerable difficulties and would not necessarily remedy defects in present practice. They do not therefore think it would be advantageous or proper to require consolidated accounts in the case of all holding companies.

On the subject of liquidations, the Committee recommend that any director making a declaration of the company's solvency for the purpose of securing a Members' Voluntary Winding-up without reasonable grounds, should be liable to a penalty of £100, and also that the declaration should show that the opinion is based on the realisable value of the assets in a winding-up. They likewise consider that in a Members' Winding-up the liquidator should be required within two or three months of the commencement of the liquidation to issue a statement of affairs to the creditors of the company and call a meeting of the creditors to have the statement placed before them.

More precise definition is advocated as to the procedure at meetings of creditors where liquidation is contemplated, particularly in relation to the method of voting, and especially as to whether resolutions are to be carried by a majority in value or in number, and it is suggested that in this respect the procedure in bankruptcy might be followed, where value only is considered.

The District Auditor in examining the accounts of the Shoreditch Borough Council, disallowed

an item of £2 15s. 6d., the cost of engrossing on vellum a testimonial to the ex-Mayor of the borough. At a sitting held by the auditor at the Town Hall to hear the observations of the councillors on the disallowance, some strong remarks were made. One councillor said he would be interested to have a memento of the most farcical incident he could remember in connection with public life; another observed that if a referendum were taken of the ratepayers, there would be an overwhelming majority in favour of such a presentation being made to an ex-Mayor; whilst a third pointed out that it would be legal to incur far greater expense by starting a freemen's roll to express appreciation of services rendered. The auditor stated that he had decided to confirm the disallowance, and would make a surcharge next year. This incident illustrates one of the aspects of a Government audit, and shows the somewhat ridiculous extent to which the power of surcharge may be carried.

It is reported that the Government is investigating proposals for holding public inquiries into fires which involve damage to private houses and business premises in any part of the country whenever such action is considered necessary. With this end in view, an examination is being made of statistics forwarded by county authorities to the Home Office and to Somerset House. It is considered that the activities of fire raisers will be checked if a public inquiry is ordered into the circumstances relating to all substantial fires, including an examination by professional accountants of the books and records of the firms and individuals whose premises are concerned.

The Dutch Budget estimates for 1934 indicate a net deficit of £15,900,000, and it is proposed to cover this by certain economies and the imposition of a number of new taxes. These taxes include a sale and luxury tax of 4 per cent. on ordinary goods, and 10 per cent. on luxury articles, expected to yield over £7,000,000; also a crisis Income Tax and a Coupon tax of 2 per cent. on all Dutch Bonds and all foreign bonds held in Holland. There is likewise a proposal, which is meeting with growing opposition, to impose a tax of 10 per cent. on income derived from securities and house property, with certain exceptions in favour of banks and business undertakings. On the expenditure side of the account, economies in all Government Departments and the reduction of all salaries and wages of persons in the public service is expected to effect a saving of £7,000,000.

An interesting point in relation to directors' fees has arisen in connection with the affairs of Hickman (1928) Limited. The auditors have pointed out a provision in the company's Articles that directors' fees are to be paid out of profits. No profits have been made since June, 1928, but fees of substantial amounts have been paid to the directors since that date for every year up to 1932. The auditors have suggested that steps should be taken to regularise these payments and a resolution is being submitted to the shareholders to have the Articles of Association altered so as to enable the fees to be paid out of the company's "funds" instead of "profits." From the terms of the letter which has been issued with the notice of the meeting, some of the directors are apparently whole-time servants.

At the meeting of the British Association held at Leicester last month, Mr. J. L. Holland (President of the Education Section), speaking on the subject of secondary schools, said that the idea that the secondary school was a class school was still entertained, but there was no real ground for it. In justification of this view, he said that a few years after the Free Place Regulations were made in 1907, one out of every 22 who left elementary schools in England went to a secondary school, and one out of every 46 received free education. Since then the process of interfusion had gone on until last year the ex-elementary school child constituted 71 per cent. of the scholars in the English secondary schools. Of those who left the elementary schools, one in every eight made his way to a secondary school, and half of the number went with a free place.

RECEIVERS AND THEIR LIABILITIES.

A receiver is usually liable for any moneys that have reached, or which might have reached, him but for his own default or negligence. If moneys entrusted to him and sent by him do not reach the proper person or place, he may have to make good the loss in connection therewith unless he can prove that he has acted with ordinary regularity and skill and has exhibited such a reasonable degree of prudence as a man would be expected to show in the ordinary affairs of his own business. When he pays money into a separate receiver's account he is not liable for any loss sustained by reason of the failure of the bank, but where a receiver made remittances to his own credit and use, and did not keep a separate account, he was held liable when there

was a loss by the failure of the bank itself. Where he uses for his own purposes interest on balances standing to the credit of the banking account of the receivership, he is liable therefor, for a receiver is paid for his services and is not entitled to gain any further advantage out of the estate, such as an increase of his personal credit with a bank.

When a receiver sends money to his own solicitor for payment into Court, he is not *prima facie* liable for loss caused by the default or bankruptcy of the solicitor. If, however, he is ordered by the Court to pay money to certain named individuals he is liable for any loss sustained if he pays any other person, such as his own solicitor or to the solicitor of the person named, unless he can show that such solicitor had the proper authority to receive and give a due discharge for the money concerned. A receiver is liable for any loss sustained by parting with the control of any property, or by placing such property under the control of persons he knows to be unreliable, or for any fraud he has been a party to.

A receiver may be personally liable for acts done outside the scope of his authority; for example, for taking possession of property not included in the assets of his testator which he has been appointed to collect. But if the beneficiaries have acquiesced in this irregular handling of property in excess of his authority, and they have benefited by it, he may be indemnified therefor.

As regards a receiver who also acts as manager of a business, he is not liable for loss in trade so long as he acts in accordance with the instructions of the Court and conducts the business in a proper way. There is a general liability for rent and due performance of all the covenants in connection with leaseholds, and a receiver on behalf of other persons is under the liability to pay income tax in place of such other persons.

In *Re J. W. Abbott & Co., Limited* (1913), the receiver of a company's assets, who had been appointed in a debenture holders' action, was held not liable where premises had been leased to the company and he had sold the assets, including the tenancy, to pay rent for the period subsequent to that during which he had been in beneficial occupation.

A receiver appointed by the Court is *prima facie* liable on all contracts entered into by him, and the mere addition of the words "receiver and manager" after his signature is not sufficient to displace the presumption of personal liability. In *Moss Steamship Company* v. *Whinney* (1911), an accountant by order of the Court was appointed receiver and manager of the business of a brewery company in a debenture holders' action. The House of Lords held that the company was still alive and its business was still being carried on by the receiver, but he was not carrying on as the company's agent. He had superseded the company, and the transactions upon which he had entered in carrying on the old business were his transactions, upon which he was personally liable. He was really a trustee, and the shipowners had dealt with the trustee. There might be cases in which a receiver and manager was in all senses the agent of the company, but in that case he was not such an agent, and this had been sufficiently conveyed to the shipowners by the notice that he was receiver and manager. The appointment of a receiver and manager over the assets and business of a company does not dissolve or annihilate the company, any more than the taking possession by the mortgagee of the fee of land let to tenants annihilates the mortgagee. Both continue to exist.

Where a receiver is appointed under a document which provides that the person appointed receiver is to be the agent of the company, and that the company is alone to be answerable for his acts, contracts, and defaults, neither the trustees nor the debenture holder are personally liable in respect of contracts entered into by him, even though after his appointment the company goes into liquidation, and he is not personally liable upon contracts which he enters into as such receiver before the company goes into liquidation unless he agrees to be so liable.

The Law of Property Act, 1925, sect. 109 (2), provides that the receiver shall be deemed to be the agent of the mortgagor, and the mortgagor shall be solely responsible for the receiver's acts or defaults, unless the mortgage deed otherwise provides. In *Deyes* v. *Wood* (1911), where the corresponding section of the Conveyancing Act, 1881, sect. 24 (2), was, on the construction of the debenture, deemed to be included, it was held that the mortgage otherwise provided that the receiver was to be the agent of the debenture holder. This case was distinguished in *Culley* v. *Parsons* (1923), where a provision was inserted that a debenture holder should not, in making or consenting to the appointment of a receiver, incur any liability to him for his remuneration or otherwise. By sub-sect. 9 of the same section the receiver is to apply all money received by him:—

(i) In discharge of all rents, taxes, rates, and outgoings whatever affecting the mortgaged property;

(ii) In keeping down all annual sums or other payments, and the interest on all

principal sums, having priority to the mortgage in right of which he is receiver; and

(iii) In payment of his commission, and of premiums on fire, life, or other insurances, if any, properly payable under the mortgage deed or under the Act, and the cost of executing necessary or proper repairs directed in writing by the mortgagee.

The principal moneys secured by the debenture having become payable, a receiver was appointed by the debenture holder. In carrying on the business the receiver incurred a debt to the plaintiff for work done which could not be paid out of the assets when realised. It was held that the effect of the provision in the condition was to relieve the debenture holder of liability not only to the receiver but also to other persons for the acts of the receiver, and to render the receiver the agent for the company, and judgment was given against the company, and the receiver was held not liable.

In a recent case at Manchester a claim was made for goods supplied to the defendant, who was receiver and manager of Wineshops Limited. It was contended that although the orders indicated that the defendant was receiver and manager there was no statement that he was acting on behalf of the company, and therefore he was personally liable. The defendant, however, stated that every document showed that he was acting as agent for the company. and it was held that the orders were given by the company whose name was upon the documents, and that the defendant had added his name to show that as receiver and manager he had authorised the issue of the company's order. Judgment was given for the defendant, following *Culley* v. *Parsons.*

In regard to costs of proceedings in the High Court, a receiver may be ordered to bear personally costs of unnecessary proceedings, or proceedings which have been rendered necessary by his own default or negligence. Costs, however, properly and necessarily incurred by a receiver in the proper and rightful discharge of his duties are allowed.

The Supreme Court of Judicature (Consolidation) Act, 1925, sect. 50 (1), provides that, subject to the provisions of the Act and to rules of Court and to the express provisions of any other Act, the costs of and incidental to all proceedings in the Supreme Court, including the administration of estates and trusts, are in the discretion of the Court or Judge, who has full power to determine by whom and to what extent the costs are to be paid.

CAPITALIST COMBINATIONS IN INDUSTRY.

[CONTRIBUTED.]

IN choosing this subject for his address to the International Congress on Accounting, Mr. Hewetson Nelson brought before an instructed and interested audience an admittedly contentious topic. The ground covered by his title was so wide that the limits of time clearly precluded the examination of both the structure and extent of capitalist combinations, on the one hand, and the relation of their functions and capacities to present-day needs, on the other hand. In this dilemma, Mr. Nelson laid perhaps more emphasis upon the former aspect, with the result that his paper has provided not only his audience, but the wider circle of accountants throughout the world, with a valuable compendium of the nature and extent of capitalist combinations in British industry. As Mr. Freeman observed, it was a paper which went so far beyond an address that it became practically a work of reference. That aspect which dealt with present-day needs was necessarily compressed although it naturally best lent itself to discussion.

Mr. Nelson suggested eight criteria as a guide for reviewing the general effect of capitalist combinations in industry. No one can quarrel with those criteria. But it may be urged that they are equally applicable to concerns of more moderate size, or even to large concerns which have been built up gradually through expansion from within, and free from any addition which justifies the title of a combination. It is the methods by which capitalist combinations endeavour successfully to meet these eight tests, as opposed to methods employed by smaller concerns, which must constitute the acid test of their success. Of these methods Mr. Nelson was unable within the time at his disposal to say much. Nor did the subsequent discussion add a great deal.

In face of the initial assumption that capitalist combinations are a genuine attempt to raise economic efficiency and improve general welfare, the cynic might observe that the tables appended to the paper were designed rather to prove the opposite. Perhaps a safeguard was intended in Mr. Nelson's observation that the short view might well prove the wrong view. It is indeed a question whether capitalist combinations have yet reached such a position of influence in industry as a whole, or have been long enough in that position, to provide the material for a long view. Moreover, the circumstances of the past twenty years might be regarded as so abnormal that any statistical evidence derived from the facts of that

period was unduly biased. In Table I, for instance, of the twelve capital re-organisations listed, it is to be observed that eight related to iron and steel concerns. In any case, such a proportion would be out of line with the general relation between the respective volumes of the iron and steel industry and all the industries of the country, apart from the fact that iron and steel were especially affected by the requirements of the War period. Table II contains an even more powerful group of capitalist combinations in respect of which drastic capital re-organisation has been unnecessary. The capital mentioned in Table I, prior to re-organisation, amounted to £37.6 million, but Table III shows that in December, 1928, the paid-up capital of all companies on the Board of Trade Register amounted to no less than £4,978 million. The comparison is striking.

There is a general tendency to believe that capitalist combines are growing in number, but Mr. Nelson shows that between 1926 and 1931 the average paid-up capital of public companies has only risen from £196,000 to £250,000, or slightly over 20 per cent. The registration of any holding company of course duplicates the statistics. If, for instance, five public companies each with a capital of £200,000 are merged by the creation of a holding company with a capital of £1 million, the original £1 million is doubled. But the average will rise from £200,000 to £333,000, or an increase of 66 per cent. Should the holding company be capitalised at a larger figure than the aggregate of the original companies, in order to cover reserves, &c., then this increase will be greater still. The figures quoted by Mr. Nelson show no such significant movement.

The inherent prejudice of the public against combinations noted by Mr. Nelson was, strange to say, strongly supported by those who spoke in the discussion. Undoubtedly suspicion is less easily roused than it was some years ago, mainly, no doubt, because these suspicions lack any real background. The recommendation of the Committee on Trusts of 1919 and the reports of the Committee under the Profiteering Act of 1919 have led to no action, because it is doubtful whether action is required. The more recent constitution of the Food Council cannot in the main apply to capitalist combinations any more particularly than it applies to the large number of businesses in private ownership. Given the proper spirit, capitalist combinations undoubtedly have the means of making a large contribution to economic welfare. Such factors as stability of price, maintenance of high quality, the provision of expert service in use, the power to conduct research upon a wide scale, and the ability to maintain, year in, year out, conditions of labour and welfare such as are normally beyond the means of small concerns are factors of great importance. We are still learning the painful lesson of the trade cycle. These great waves of prosperity and depression, though they may be diminished in amplitude, are not likely to be eliminated. Large-scale combinations are better able to withstand these storms. Their finance can be stronger, their policy can take a wider sweep, and their research can be maintained. The relations between capital and labour are simplified when large capitalist organisations can be dealt with, covering a large number of workers. The larger the industrial combination, the more clearly does it see that its well-being is concerned with the distant future as well as the immediate present. It can afford to plan for long years ahead, and be consistent in its policy. It is more likely to understand how closely the welfare of its workers and its staff concern its own well-being, and to act accordingly. Perhaps of more importance still, it can survey the whole field of demand and supply, set up the limit of its own expansion, and trace the lines of manufacture which it will not cross to wage a senseless competition with concerns whose legitimate province is contiguous with its own. All growing concerns have a tendency to creep into other and allied fields of production. To this germ may be traced many of the fallacies that lead to boom conditions, over-supply, financial crises and subsequent depression. The secret of economic welfare lies in harmony and balance. Competition has been proved to lead only too often to disharmony with corresponding waste of capital and disaster to investors. Capital is so precious that if possible not a drop should be spilled. Wherever it is immobilised in fixed assets beyond the reasonable needs of the market, then sooner or later that surplus will be lost through competition.

Mr. Nelson spoke of natural monopolies in which he included transport and public utility enterprises such as railways. These were described as necessary monopolies. Here, he remarked, "unrestrained competition would be practically impossible and financially disastrous." Yet in the allied sphere of road transport where there has been no natural monopoly, and in the beginning no capitalist combination, that unrestrained competition raged with disastrous results. After years of chaos in London transport, facts have forced a regulation of the industry through the creation of the London Passenger Transport Board. To-day railways are hampered by the shackles imposed upon them arising out of the distrust which accompanied their initial monopoly. Large scale organisations have their part to play in a well-ordered economic life. That part

depends upon the services they provide or upon the nature of the products they manufacture. They are clearly not fitted to render individual services or to manufacture specialised or luxury articles with a limited market. Where, however, large capital expenditure is necessary for efficient production, then the cost of that capital and the economic obligation not to waste it, require that the plant shall be able in normal conditions to work at as high a percentage of its capacity as is consistent with the existence of a reasonable margin of safety to take care of peak demand conditions.

Few of these considerations appear to have been present in the minds of those who spoke in the discussion, notwithstanding that it was a specialised audience, and that the accountancy profession is the one which comes closest to the observation of economic conditions in the sphere of industry and commerce. One speaker observed that "it could not be denied that the aim of a combine was to snatch a monopoly—knock out all competition." Is it possible that he had evidence of such aims? If so, he owed it to his audience to produce it. Then he spoke of "staleness and rivalries of huge staffs," of "nepotism and inter-marriage of personnel without fresh blood." Surely these characteristics are as likely to be found in a family business as in a large organisation where competence and ability must be the test. A more balanced view was presented by Mr. Freeman when he observed that combinations properly worked were a "protection not only to the producer, but also to the middle-man and the consumer." We may agree with another speaker that competition is the "automatic check on the possibilities of abuse which are inherent in the capitalist system," but only if we are in accord upon the meaning of competition. Unfortunately, men classify competition into fair and unfair, and then disagree upon the place of the dividing line. Great combinations have their own honour to consider in this matter, and are not likely to adopt a course which will bring their name into disrepute. Unlimited competition leads to increased supply upon any market, and gradually tends, according to the law of demand, to press price down below a remunerative level, for a certain number of producers. The classified statistics presented to the Committee on National Debt and Taxation showed clearly the existence in every industry examined of a class of no profit producers. Similar investigations in the United States have disclosed the same phenomenon. It is doubtful, indeed, whether a full competitive system does not involve a certain volume of supply at a loss, with, therefore, a constant tendency to waste of capital immobilised in the fixed assets owned by the producers concerned. Mr. Allan Hay called attention to the danger that in great combines there might be a very strong personality in control, so that there were the elements of great disaster if that personality either ran riot or by necessity were removed at a critical time in the history of the company. But do not these dangers also face smaller concerns? For a given capitalisation unified in one case, and in any other, spread over fifty or a hundred concerns, is there not greater possibility of disaster in the latter event than in the former? In the great combine there may be an equal number of strong personalities, but, at any rate, they will be arranged in a hierarchy of power so that the number of those who dominate is comparatively few. With the fifty or the hundred concerns there may be as many strong personalities, each in a like position of dominance. In a great combine it is less likely that a powerful personality will be in charge over so long a period of years as is possible in a smaller family concern. Moreover, he is almost certain to have powerful personalities associated with him, either in the active conduct of the business or in the outside membership of his board. Finally, the larger the concern, the more it needs an organised administrative machine—an inherent protection against "one man" power. There were further charges against capitalist combines such as those that they were "bad for the civic life of the community by the reduction of financially interested ratepayers"; "bad for the nation, as the concentration of financial control into a small number of immense units rendered the exploitation of national and racial prejudices for the benefit of some particular vested interest only too easily capable of attainment"; and that welfare schemes for labour in most cases were "parochial in essence and pauperising in effect because the employees entered into the schemes thinking that if they did not do so they would lose their jobs." They clearly need no answer. Such charges spring from ignorance, not from knowledge. They were suitably rebuked by the author of the paper when, in reply, he said that "the august nature of the International Congress of Accountants did not, in his judgment, provide a platform from which to expound private sentiments."

LONDON PASSENGER TRANSPORT ARBITRATION TRIBUNAL.

The Lord Chancellor, pursuant to sect. 12 of the London Passenger Transport Act, 1933, has appointed Mr. Joshua Scholefield, K.C., Sir James Martin, M.B.E., J.P., F.S.A.A., and Sir Philip Nash, K.C.M.G., C.B., to be the Commissioners constituting the London Passenger Transport Arbitration Tribunal. Mr. Scholefield is the President of the Tribunal.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our August issue :—

ASSOCIATES TO FELLOWS.

Arnold, Cyril (Cyril Arnold & Co.), 27, Bodfor Street, Rhyl, Practising Accountant.

Chapman, John Frederick (W. T. Walton & Son), 3-7, Scarborough Street, West Hartlepool, Practising Accountant.

Dugdale, George (Martin & Acock), Westminster Bank Chambers, 69, London Street, Norwich, Practising Accountant.

Groves, Matthew Henry (W. T. Walton & Son), 3-7, Scarborough Street, West Hartlepool, Practising Accountant.

Milton, Alfred George, Accountant, Weston-super-Mare Urban District Council, Town Hall, Weston-super-Mare.

Moon, Edgar (J. H. Freeborough & Co.), Haxworth Chambers, Figtree Lane, Sheffield, 1, Practising Accountant.

Whittles, Harold Henry (J. H. Freeborough & Co.), Haxworth Chambers, Figtree Lane, Sheffield, 1, Practising Accountant.

ASSOCIATES.

Abbott, Keith Alexander, Clerk to Woolley & Waldron, Blue Peter House, 8 and 10, Portland Terrace, Southampton.

Anand, Oudh Narain, B.A., Clerk to Walter E. Lambert & Co., 18, Charing Cross Road, London, W.C.2.

Armes, Cyril Patrick, Clerk to Black, Geoghegan and Till, Orient House, 21, Budge Row, London, E.C.4.

Barber, Edward Cecil, Clerk to Crane, Houghton and Crane, 30a and 31, St. Paul's Churchyard, London, E.C.4.

Bell, Mervyn, Clerk to J. A. Kinnear & Co., Provincial Bank Chambers, 3 and 4, College Street, Dublin, C.5.

Bentham, Frank, Clerk to Burton & Disley, Tower Chambers, 29, Brown Street, Manchester, 2.

Bhavnagri, Ratanji Nowroji, B.A., LL.B., formerly Clerk to Sorab S. Engineer & Co., Morarbhoy Buildings, 45, Apollo Street, Fort, Bombay.

Birkett, Sidney James, Clerk to Chantry, Button & Co., Africa House, Kingsway, London, W.C.2.

Blackwood, William Stephen, Clerk to Price, Waterhouse & Co., 3, Frederick's Place, Old Jewry, London, E.C.2.

Boman, Ernest Arthur, Clerk to Hatfield, Dixon & Co., 37, Walbrook, London, E.C.4.

Brightman, Walter Powell, Clerk to W. T. Bell, Wilkinson & Foden, Chancery Chambers, 55, Brown Street, Manchester, 2.

Brown, Robert, Clerk to James Boyd & Co., 2, Wellington Place, Belfast.

Brownridge, Donald Wilson, Clerk to Victor Walton, 26-27, Bond Street, Leeds, 1.

Bullard, Herbert, Clerk to F. Roberts & Co., 15, Guildhall Road, Northampton.

Burden, Leslie Arthur, Clerk to W. M. Bayliss, Sons and Co., 16, Broad Street, Oxford.

Burridge, Ernest Edward (Brooke-Smith, Burridge & Co.), London and Lancashire Building, 44, Corn Street, Bristol, 1, Practising Accountant.

Burrows, William, Clerk to F. R. Lonsdale, 30, Willow Street, Accrington.

Bussell, George William (Crick & Bussell), 20, Bedford Row, London, W.C.1, Practising Accountant.

Cawthra, Sidney Stead, City Treasurer's Department, Town Hall, Bradford.

Cawthron, Cyril Halstead, "Alston," Carlton Road, Ashton-under-Lyne (formerly Clerk to E. Broadbent, Fish & Co., Ashton-under-Lyne).

Chalmers, Alexander, Clerk to J. Needham & Co., 3, York Street, Manchester, 2.

Chappell, Charles Ivor Spencer, A.C.A., Minton Chambers, 19, Westover Road, Bournemouth, Practising Accountant.

Clegg, John Hemingway, Clerk to Hollings, Crowe, Storr & Co., 39, Park Square, Leeds.

Colbeck, Cyril, Clerk to J. H. Alexander, City Chambers, Leeds.

Collinge, Vernon Harcourt, Clerk to J. H. Lord & Co., Martins Bank Buildings, Bacup.

Collinson, Robert Tuxworth, Clerk to Barron and Barron, 1, Minster Gates, York.

Condy, Stephen Charles (E. C. Condy & Co.), 15, Princess Square, Plymouth, Practising Accountant.

Cornes, Bernard Charles, Clerk to Brown, Peet & Tilly, 37 and 38, Mark Lane, London, E.C.3.

Crang, Cyril James, Clerk to Clarke, Dovey & Co., 31, Queen Street, Cardiff.

Crick, Stephen Leslie (Crick & Bussell), 20, Bedford Row, London, W.C.1, Practising Accountant.

Crossey, Mark (E. J. Dowdall & Shaw), 5, Donegall Square South, Belfast, Practising Accountant.

Davies, Edwin George, Borough Treasurer's Office, Town Hall, Wallasey.

Dawrant, Kenneth, Clerk to Armitage & Norton, Somerset House, Halifax.

Dent, Sydney, Clerk to Ford & Rimington, 59, Wellington Road South, Stockport.

Denton, Eric, Clerk to Litton, Pownall, Blakey & Higson, 42, Spring Gardens, Manchester, 2.

Dixon, Reginald Errington, Borough Treasurer's Department, Borough Buildings, Hartlepool.

Echart, Henry George, Treasurer, Rickmansworth Urban District Council, Council Offices, Rickmansworth.

Elliott, Henry Robert, Clerk to Carpenter, Box & Co., Liverpool Chambers, Worthing.

Epstein, Benjamin, Clerk to Broads, Paterson & Co., 1, Walbrook, London, E.C.4.

Eveleigh, Philip Alfred, Clerk to C. E. C. Nicholls and Co., Avenue House, The Avenue, Eastbourne.

Ferns, Herbert Louis, Clerk to Price, Waterhouse and Co., 47, Avenue de l'Opera, Paris (2).

Fielden, Herbert Skelton, Accountant's Department, Buckinghamshire County Council, County Offices, Aylesbury.

Flowers, John Alfred, Clerk to Goldie, Campbell and Robins, Bank Chambers, Lowgate, Hull.

Forster, Sydney Allan, A.C.A. (W. T. Walton & Son), Marlow House, Lloyd's Avenue, London, E.C.3, Practising Accountant.

Geipel, Clifford (W. G. A. Russell & Co.), Ruskin Chambers, Corporation Street, Birmingham, Practising Accountant.

Gibson, Charles Gordon, formerly Clerk to G. S. Pitt, 27, Clement's Lane, Lombard Street, London, E.C.4.

Greenacre, Howard John Henry, Clerk to Gardiner, Hunter & Co., 40-41, Old Broad Street, London, E.C.2.

Greenhill, Basil William, Clerk to Norton, Slade and Co., 502, Salisbury House, London Wall, London, E.C.2.

Hammond, Henry Havelock, Clerk to Cole, Dickin, Lewis & Co., 22, St. Andrew's Street, Cambridge.

Hampshire, Joseph Leonard, County Accountant's Department, Kent County Council, Sessions House, Maidstone.

Harris, Leslie George, formerly Clerk to Allnutt, Bradfield & Co., 3-4, Clements Inn, Strand, London, W.C.2.

Haworth, Thomas Richard Grenville, Clerk to T. Greenhalgh & Co., Clifton Chambers, 23a, Clifton Street, Blackpool.

Haydon, George Frederick, Clerk to Temple, Gothard & Co., 7-8, Norfolk Street, Strand, London, W.C.2.

Hewitt, Algernon Trevor, Clerk to Lord, Foster & Co., 37, Walbrook, London, E.C.4.

Hibbs, John Thomas, Clerk to J. Nicholson, 185, High Street, Lincoln.

Higgs, George William, Clerk to Crew, Turnbull & Co., 4, Dove Court, Old Jewry, London, E.C.2.

Hillier, Sydney James, Clerk to Edward Myers, Clark & Co., 7-8, Norfolk Street, Strand, London, W.C.2.

Hitchings, Alan Stuart, Clerk to Dixon, Wilson, Tubbs & Gillett, 24, Basinghall Street, London, E.C.2.

Hutchinson, Edward Guy, Audit Department, Co-operative Wholesale Society, Limited, 84, Westmorland Road, Newcastle-upon-Tyne.

Ingamells, Harry, Clerk to H. Slater & Son, Sussex House, Hobson Street, Cambridge.

Jobson, Arthur William, Clerk to Walter E. Lambert and Co., 18, Charing Cross Road, London, W.C.2.

Jones, Cyril Thomas, Clerk to Cozens, Bate & Co., Carlton Chambers, Baldwin Street, Bristol, 1.

Jordan, Robert Thomas, Clerk to Herbert Sharp, 33, Blackfriars Street, Manchester, 3.

Kent, Stephen John, City Treasurer's Office, Town Hall, Leicester.

Kewish, Harold, Clerk to Latham & Taylor, Martin's Bank Chambers, Wigan.

Keys, Fred, Clerk to H. Slater & Son, Sussex House, Hobson Street, Cambridge.

Kirkby, Horace, Clerk to Firth, Parish & Clarke, 32a, Market Street, Bradford.

Knight, Charles Eric, Finance Department, Surrey County Council, County Hall, Kingston-on-Thames.

McKenzie, Alexander, A.C.A., 32, West Sunniside, Sunderland, Practising Accountant.

McKeown, Arthur, Clerk to S. B. I. Abbott & Co., Bedford Buildings, 7, Bedford Street, Belfast.

Manning, Herbert Arthur, Clerk to Mellors, Basden and Co., Portland House, 73, Basinghall Street, London, E.C.2.

Martin, Albert Victor, Deputy Accountant, Coulsdon and Purley Urban District Council, Council Offices, Purley, Surrey.

Mayhew, Henry John, Clerk to Lawrence, Hann & Best, Finsbury Pavement House, 120, Moorgate, London, E.C.2.

Mistri, Manekshaw Pirosha, B.A., formerly Clerk to S. B. Billimoria & Co., 113, Esplanade Road, Fort, Bombay.

Morgan, William Percival, Clerk to Ashmole, Edwards and Goskar, Cornhill Chambers, Christina Street, Swansea.

Naylor, Harold, Clerk to Camm, Metcalfe & Co., Town Hall Chambers, Fargate, Sheffield.

Neason, Harold Alfred, City Treasurer's Office, The Council House, Coventry.

Paine, Cyril, Clerk to Edward Blinkhorn, Lyon & Co., 69, Leadenhall Street, London, E.C.3.

Paramour, Joseph Richard, Clerk to Saffrey, Sons & Co., 200, Gresham House, Old Broad Street, London, E.C.2.

Parkin, Thomas Harold, Clerk to Mills, Hawes, Harper and Co., 49 and 50, High Street, Guildford.

Patter, Bernard, Clerk to Howard, Morris & Crocker, 102, Victoria Road N., Southsea.

Pearson, John Leslie, 8, Balmoral Terrace, Gosforth, Newcastle-upon-Tyne. (Formerly articled clerk.)

Pinner, Hugh George, Clerk to A. P. Smith & Co., 3, York Street, Manchester.

Potter, Ernest Frank, Clerk to Alfred G. Deacon & Co., National Chambers, 4, Horsefair Street, Leicester.

Powell, Cledwyn Lloyd, Clerk to Ashmole, Edwards and Goskar, Cornhill Chambers, Christina Street, Swansea.

Revill, Charles Frederick, Clerk to Sidney W. Revill and Co., 4-5, Warwick Court, Gray's Inn, London, W.C.1.

Robins, Clifford Smith, Clerk to Bland & Fielden, 11, Sir Isaac's Walk, Colchester.

Round, Norman, Clerk to Cooper-Parry, Hall, Doughty and Co., 102, Friar Gate, Derby.

Rowland, Thomas Hutchinson, A.C.A. (W. T. Walton, Son & Rowland), Victoria Buildings, Stockton-on-Tees, Practising Accountant.

Salter, Frank Gilbert, formerly Clerk to C. S. Lashmore & Co., 2, Church Street, Cardiff.

Sargeant, Harry John, A.C.A. (W. T. Walton & Son), 5, Scarborough Street, West Hartlepool, Practising Accountant.

Scott, Thomas Stewart, Clerk to R. D. Munro & Co., 20 and 21, Lawrence Lane, Cheapside, London, E.C.2.

Shaw, Harold, Clerk to Ernest Carter, County Chambers, King Street, Wakefield.

Smart, John Frederick, Clerk to E. Harlow & Co., Grosvenor Chambers, 23, King Street, Nottingham.

Snelgrove, Wilfred, Clerk to Alfred E. Pugh, Carlton Chambers, Newport, Mon.

Spencer, Wilfred John, Clerk to James Boyd & Co., 48a, High Street, Portadown.

Stewart, Stanley Charles, Clerk to Howard, Howes and Co., Norfolk House, Norfolk Street, London, W.C.2.

Storey, William Ernest, formerly Clerk to Culley & Co., 5, Bank Plain, Norwich.

Talati, Bejonji Burjorji, B.Com., formerly Clerk to S. R. Batliboi & Co., 1b, Old Post Office Street, Calcutta.

Tarr, Stanley Thomas Hookway, Clerk to Ker, Jones and Co., 7, Castle Street, Bridgwater.

Taylor, Frank, Clerk to R. H. B. Heap, Royal Chambers, Upper Piccadilly, Bradford.

Thick, John Douglas, Clerk to Ernest Francis & Son, 172, Friar Street, Reading.

Thompson, Joseph William (Allan, Bradley and Thompson), 21, Henry Street, Keighley, Practising Accountant.

Tucker, Percival James, Clerk to Ker, Jones & Co., 7, Castle Street, Bridgwater.

Turner, Henry Moore, formerly Clerk to Newman, Ogle, Ashworth & Bevan, Spencer House, South Place, London, E.C.2.

WALLIS, EDWARD GEORGE, Clerk to Oldham, Holland and Co., 17, Coleman Street, London, E.C.2.

WALTON, JOHN WILLIAM, Clerk to T. G. Green, 37, Saddler Street, Durham.

WATKINS, GEORGE HENRY, Clerk to Kenrick Morgan, National Provincial Bank Chambers, Rutland Road, Skegness, Lincs.

WATSON, ELEANOR MARY, Clerk to J. Durie Kerr, Watson and Co., 5, Waterloo Street, Birmingham.

WHITEMAN, VICTOR, Clerk to Bourner, Bullock & Co., 36, Derby Street, Leek, Staffs.

WHITING, STANLEY PITTAM, Borough Treasurer's Department, Town Hall, Scarborough.

WILD, JAMES, Clerk to R. Horsefield, 8, Peter Street, Manchester.

YEAXLEE, CEDRIC WELLESLEY, Clerk to Cooper & Cooper, 49, Eastcheap, London, E.C.3.

Obituary.

HARRY MONRO BRACKENBURY KER.

We have learned with regret that Mr. H. M. B. Ker, J.P., F.S.A.A., passed away on August 30th, at the age of 65. Mr. Ker, who has been a member of the Society since 1901, was the immediate Past-President of the West of England District Society of Incorporated Accountants, having held the office for four years. He was also a member of the District Society Committee. For many years he was in public practice at Bridgwater, and in 1931 was joined by Mr. A. H. Jones, Incorporated Accountant, the firm practising as Ker, Jones & Co. Mr. Ker took an active part in the public and social life of Bridgwater. He served on the Corporation of the Borough for nearly twenty years, and was Mayor in 1925. He was a Past-Master of the "Admiral Blake" and "Royal Philanthropic" Lodges of Freemasons, and an active supporter of a number of social and sports clubs. For many years he was President of the Bridgwater Cricket Club, and Chairman of the Bridgwater Amateur Operatic Society. At the funeral, which took place on September 2nd, the West of England District Society of Incorporated Accountants was represented by the President, Mr. Sidney Foster, F.S.A.A., and others who attended included the Mayor and members of the Corporation and representatives of the Chamber of Commerce, Masonic Lodges, and other local organisations.

PETER RINTOUL.

Mr. Peter Rintoul, C.A., Chairman of the Joint Committee of Councils of the Scottish Chartered Accountants, died on September 21st, at the age of 63. Mr. Rintoul was senior partner of the firm of Grahams, Rintoul, Hay, Bell & Co., practising in Glasgow and London. He was a member of the Council of the Institute of Accountants and Actuaries in Glasgow, of which he was President from 1928 to 1930. In November, 1932, Mr. Rintoul was appointed to conduct the inquiry into objections against the Milk Marketing Scheme for Scotland.

WILLIAM CHADWICK.

Mr. William Chadwick, F.S.A.A., who died at a Wallasey Nursing Home, on September 17th, in his 55th year, had been a member of the Society since 1914. He received his early training with Messrs. Simon, Jude & West, Chartered Accountants, Liverpool, and joined the staff of Messrs. William Egan & Co. in 1901. Succeeding Mr. Egan in 1914, Mr. Chadwick carried on practice in Liverpool, latterly in partnership with Mr. Herbert Morland.

Correspondence.

SALE AGREEMENTS.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—It has been my experience that there is a great tendency among solicitors when drawing up an agreement for the sale of a business to include fixtures, stock and goodwill under one heading and under one figure.

As stock has to be dealt with in the revenue account it becomes necessary to dissect this item, which very often is a vague estimate. If the items were shown separately there would be something more definite for accounting purposes.

I should be pleased to know your readers' views on the matter.

Yours faithfully,

R. T. EMMERSON.

Bristol.

September, 1933.

CAPITALISTIC COMBINATIONS IN INDUSTRY

To the Editors *Incorporated Accountants' Journal.*

SIRS,—I think that all members of our profession who attempt to apprehend the larger issues and the social significance of practical activities and tendencies—all who, in short, are philosophical accountants—are deeply indebted to Mr. C. Hewetson Nelson for his admirable paper on "Capitalistic Combinations in Industry," read before the International Congress on Accounting on July 19th last.

As an inveterate independent and individualist, I was particularly interested in his references to Big Business over against Small Business (paragraphs 59-65 and Tables 1, 2, 3 and 4). It seems to me, however, that too little is made even by Mr. Hewetson Nelson, in spite of his obvious sympathies, of the vast aggregate of economic activity carried on at home and throughout the world by sole traders and small unincorporated groups or firms. Agriculture; Distribution; Professional Services; Amusements; Catering; Manufacturing; in these and many other fields the small man at least holds his own.

The presence of large numbers of sole practitioners and small firms in the legal and accountancy professions is indicative of the volume and economic importance of small scale enterprises. Moreover, reference to telephone and other directories in London and the Provinces will quickly reveal the existence of an enormous number of businesses of all sorts not on the company register.

I should like to ask two questions :—

(1) Is there any information publicly available as to the number and capital value of unincorporated businesses? (*e.g.* the Board of Trade from the Census of Production, or the Inland Revenue from Income Tax Returns).

(2) Is it possible to say whether the tide is flowing towards or away from large scale combinations over the whole range of economic activity at home and abroad?

While I hope naturally that the movement is away from large scale combinations, I feel that Mr. Hewetson Nelson is right (paragraph 116) in thinking that the combine movement has come to stay alongside individual enterprise. Symbiosis on economic terms, and not the arbitary artificial stimulation of the one as against the other, is the solution.

Yours faithfully,

H. C. BANTING.

London.

September, 1933.

Depreciation and Obsolescence:

Methods of Dealing with these Matters, including Annual Appraisals.

Papers read at the International Congress on Accounting held in London on July 21st by

Mr. H. G. HOWITT, F.C.A.,
AND
Mr. A. S. FEDDE, C.P.A.
(*United States of America*).

Mr. E. Cassleton Elliott (President of the Society of Incorporated Accountants and Auditors) occupied the chair.

Mr. Howitt's Paper.

Mr. Howitt said: May I, in addressing for the first time an international gathering, seek encouragement towards my task, from the thoughts of one of the most international of my countrymen on the subject allotted to me? It was William Shakespeare who said:—

" The cloud-capp'd towers, the gorgeous palaces,
The solemn temples, the great globe itself,
Yea, all which it inherit, shall dissolve,
And, like this insubstantial pageant faded,
Leave not a rack behind."
The Tempest (Act IV, Sc. I).

It seems to me that such sentiments represent the correct frame of mind in which to approach our problem. Even if we need not normally follow the poet in his call for depreciation of the land on which we live, it would nevertheless be well if there were more general recognition of his views on the inevitability of decay in other forms of material assets—without perhaps going as far as he does in denying to them so poetically even a scrap value.

It is because of the urgent need for such recognition in these days of rapid change, that I should like to direct my remarks more to stressing underlying principles than to dealing exhaustively with the accountancy and actuarial application of them. For the same reason I propose to deal primarily with the ordinary problems met with in commercial practice, and not to attempt to cover the whole field of special undertakings, such as railways and public utilities.

Preliminary Considerations.

Depreciation in its broadest sense, apart altogether from accountancy, is a lessening in value from any cause whatsoever, and in that sense it may, in times of rising values, be non-existent, or even become converted into appreciation.

In the narrower sense, however, as commonly used in commercial and accountancy practice, charges to revenue account for depreciation do not necessarily imply any close relation to alterations in value, but are intended to distribute capital outlay over the effective life of the asset.

It is largely on account of confusion of thought between these two conceptions that much ill-informed criticism is directed in these days against published accounts, especially as of late, in times of falling values. Such criticism fails to recognise the limitations of any single document, *e.g.* a balance sheet, in viewing an asset from two aspects, namely (*a*) as an historical record of what has in fact been done in the spending and spreading of capital outlay and (*b*) as a guide to its current value, whether for the purposes of immediate realisation, or as an integral part of a continuing business.

If for any reason a review on the lines of (*b*) is required, the problem has then ceased to be one of accountancy depreciation, and has moved into the quite separate realm of appraisal. Value assessed on such a basis is a function of earning capacity, with replacement cost as an upper, and scrap value as a lower limit.

Accountancy depreciation, then, is the measure of the exhaustion of effective life, due either to use or to obsolescence. Use refers mainly to wear and tear, though in the case of certain assets it may include exhaustion of material available, or of the time limit of ownership. Obsolescence is normally brought about by the march of invention, and the demands of efficiency. In so far as the estimated periods of effective life under these causes of depreciation may differ from each other, the shortest should be adopted as the period over which the depreciation calculations are to provide for the capital outlay.

Appraisals are of use, for such calculations, only for purposes of estimating, and from time to time revising, the estimates of effective life, and for estimating the scrap value which will remain when that effective life has run. In these days the factor of obsolescence is frequently more important and its estimation more in need of constant revision than is that of wear and tear. It requires, when it can be foreseen, to be provided for during the period of accrual, *i.e.* as a matter of true " obsolescence " and not as a matter of " obsoleteness." Sometimes, of course, it arrives suddenly, and may be too substantial in amount to be met out of revenue.

It remains to consider what is meant by effective life, a period which is naturally affected by questions of upkeep and renewal. Charges for upkeep, if properly so classified, present no accountancy difficulties, provided the annual expenditure thereon is adequate to maintain the assets as carefully as was contemplated when the effective life was estimated. Even the renewal of a complete unit, the subject of depreciation, produces no accountancy difficulty in this respect, for it represents new capital outlay requiring to be dealt with separately as such.

A renewal, however, of a part of an asset, the effect of which is to extend the life of the whole, has a direct bearing on the proper calculation of depreciation of the whole. It may be that a unit has several component parts, each calling for renewal at different times before the whole is scrapped. In such cases the renewal expenditure, designed as it is to arrest depreciation, is not a revenue charge in the period of its outlay, but should in the necessary calculations be added to original capital cost less estimated

scrap value, and the whole provided for as depreciation over the estimated effective life as extended by such renewals.

The part of an asset renewed may be better and more costly than the part it replaces. So far as this excess cost represents expenditure necessarily incurred to keep abreast of the times, without increasing earning capacity, it is preferable that it should be charged to revenue. If, however, it represents betterment in the sense of being a definite improvement, adding to earning capacity or effective life of the whole, it may be capitalised, and the depreciation chargeable on the whole will need to be amended accordingly.

Effective life, then, is the period beyond which it does not pay either to keep the asset in use by repair, or to renew a part of it. When effective life has run, the whole unit must be replaced. The problem of depreciation is, therefore, to provide for that eventual loss as it accrues, instead of as it is made good.

METHODS.

The choice of method for calculating depreciation in any particular case is influenced by many considerations. There is firstly the decision, as to whether depreciation should be limited strictly to writing off past cost, or whether its function should be to provide replacement. If choice falls on the former aim, there is secondly the decision as to the manner of spreading that cost, in which case a variety of methods is available. Before discussing them in detail, however, it may be advisable to consider the relationship of this choice of method to the allied questions of renewals and repairs.

Renewals of parts of a unit have already been discussed in their bearing on effective life, and their method of treatment from this point of view has been indicated. If, however, renewals, whether of parts of a unit or of the whole, are of constant recurrence, though irregular in amount and interval, they may represent the major consideration in the whole problem. In these cases their cost, so far as not resulting in betterment, may conveniently be charged to a reserve for renewals account, which account is then fed yearly from revenue, by an amount calculated by the engineers, to represent the annual requirement under this head. The method is accordingly in common use for such permanent enterprises as railway companies, and is a factor in what is called the double account system—a system which regards original capital and additions as sunk for all time, and deals in a separate balance sheet with the more liquid position, including the reserves for renewals.

In regard to repairs, it is sometimes urged that if this item of expense is likely to vary over the asset's life, *e.g.* to be heavier in its later years, a method of depreciation should be selected, which will, in effect, spread the total charge under these two heads equally over the period. This may appear attractive as a practical proposition though really it represents a confusion of issues. If the object of such a proposition be to spread the total depreciation plus repairs, in ratio to the value of the service to be obtained from the asset, over the different years of its life, it may well be that a curve of a very specialised nature would need to be adopted—a curve which might rise to a peak after a short period of running-in, and which, after remaining fairly constant at that level for a time, might rapidly fall.

An engineering basis of this nature might need to have regard to other expenses as well, and unless such an approach be required it seems preferable to deal with depreciation separately, in the manner most appropriate to the asset, and to the business concerned. Repairs, and other running expenses applicable to assets of different ages, will then tend to average themselves in total for the business as a whole.

Having now touched on specialised cases, it remains to consider the normal methods of depreciation, where all current repairs are charged to revenue, and where renewals, when they do arise, are renewals of whole units charged to capital. In such cases the methods in common use are as follows :—

(*a*) To spread the charge so that a gradually decreasing share falls on the later years. The method by which this is accomplished is to calculate depreciation as a fixed percentage on the reducing balance of the asset account.

(*b*) To introduce the consideration of interest, the effect of which is to make a gradually increasing charge fall on the later years. There are the following two methods which produce this result :—

  (i) The sinking fund method, under which a constant annual sum is provided for depreciation, and in addition a charge is made for interest on the sums so set aside and used in the business, or if such sums are separately invested the interest earned thereon is itself added to the provisions.

  (ii) The annuity method under which interest is charged on and added to the depreciated residue of the asset's cost, and the accumulating total is then written off equally over the period.

(*c*) To write off cost *pro rata* over the life, or over the use of the asset. This is known as the straight line method.

Examples of the working of these methods are given in Tables I-III. It is not proposed to discuss them at length, but the following notes on each method may sufficiently cover the ground.

(*a*) A percentage charge on the reducing balance is the method most frequently used in England, in cases where the period of life is not so short as to throw an undue burden on to earlier years. Whatever the cause may have been for its adoption, the retention of this method is no doubt encouraged by the fact that, except as regards ships, where the straight line principles are followed, the wear and tear

allowances for income tax purposes are normally computed on this basis. It may here be mentioned that in times of financial stress and high taxation, the income tax rate tends to become the maximum rate adopted in accounts as published, and a fair allowance for tax purposes carries, therefore, a much wider implication than it does if viewed merely as a means towards the fair assessment of tax payments. One would like to think that the converse was also true, namely that published accounts should provide as a minimum the income tax allowance, but unfortunately this is not always the case.

The advantages of this method may be said to be :—

(i) It is conservative in that it places a heavier charge on the earlier years, thereby recognising in part the heavy loss in value, judged by considerations of resale, that normally takes place immediately a new asset is put into use.

(ii) It graduates the charge, in that however long the assets remain in effective use, there is always some annual charge to be met; there is no sudden relief to revenue through their having become fully depreciated on the books.

The main disadvantages are :—

(i) Assets tend to be dealt with in groups with no clear record as to the book value at any date of individual items; if so dealt with, any satisfactory summary of depreciation provisions on existing assets for balance sheet purposes, becomes difficult or even impossible. The effect, unless plant registers are carefully maintained, may be to leave in capital some portion of an asset's cost long after it has been scrapped, or, alternatively, to rob the reserve, which is being accumulated in respect of existing assets.

(ii) There is not sufficient recognition of the slowness of this method in writing an item off, with the result that too low a rate is often adopted.

To emphasise the last point, it may suffice to mention that at normal rates (up to say 10 per cent.) over the periods in which depreciation on original cost would have written off the whole asset (*e.g.* in ten years at 10 per cent. or in twenty years at 5 per cent., &c.) the amount written off on the reducing balance method is only about 65 per cent. of that original cost. In order to leave a residual scrap value of say 10 per cent. of original cost, it is necessary that the depreciation calculations shall run for more than double the time that would have been required on the straight line basis—or alternatively, a rate more than double the stright line rate is required on the reducing balance basis, to reduce to that scrap value in the same period. If a lower scrap value than 10 per cent. on original cost be assumed —and with modern complex machines such value tends to diminish in proportion—this difference in result between the two methods becomes increasingly accentuated. In Table IV are shown the percentages left on the asset account at different rates of depreciation over an extended period.

(*b*) (i) Depreciation on the sinking fund basis is no doubt in certain respects more scientific, in that it takes into account the effects of interest on the fund which is being, or should be, accumulated against the renewal of the asset. If follows in this respect the principles on which sinking funds for the redemption of debentures are calculated, and it may here be pointed out that in so far as debenture moneys are applied in purchasing specific assets, and in so far as the life of those assets is estimated to coincide with the term of the debentures, the provisions for redemption and depreciation are identical in amount, though widely different in nature. in so far as both are provided concurrently, not only will the original cost of the assets have been amortised out of revenue, thereby keeping the proprietor's capital intact, but a further fund will also have been provided, additional to proprietor's capital, enabling the assets, if need be, to be replaced to that extent, free of debt. Provided, therefore, the debenture redemption period is not greater than the life of the asset, the debenture sinking fund alone will provide adequate depreciation, though it will not provide in addition the funds for replacing the asset.

It is, however, seldom in practice that the sinking fund method of depreciation is adopted for commercial purposes in this country—indeed, it must be admitted that it is the exception rather than the rule for a depreciation fund to be separately invested outside the business; a principle which is specially associated with this method of depreciation, although equally applicable to the other methods.

If the fund is separately invested—and strictly the use of the word "fund" should carry that implication—the annual charge for depreciation, as such, is constant; the increasing element in the total provision being found in the income from such outside investment specifically earmarked for the purpose. If, however, the fund is not separately invested, this increasing element must be found from the extra revenue, presumably earned by leaving the fund as additional capital in the business. In the latter alternative, the provision may, during the later years, become a serious embarrassment, and in either alternative the fact must remain that this method is not, during the earlier years, as conservative as are the reducing balance, or straight line methods. Leaving theory aside, therefore, it is perhaps well that it is not in more frequent use for commercial purposes.

(*b*) (ii) The annuity method is subject to the same criticism as is the sinking fund method, so far as concerns prudence; and the more so in that the accumulation of interest under it is an internal book entry, not provided from outside investment. The interest provision in this case has indeed nothing to do with the depreciation reserve, but is based on the thory that a charge should be made for the finance necessary to carry a particular asset. The desirability of such an interest charge for costing or other purposes, is outside the subject of this address, but it may be permissible to mention, that it introduces considerable difficulties in deciding the rate of interest appropriate to each category of asset at different dates or in assuming, somewhat arbitrarily, how each asset has been financed, and whether from borrowed or from proprietor's money. It is submitted, therefore, that as this interest provision is added annually to the asset account, requiring amortisation through depreciation charges, it introduces an uncertain element into the problem, which is inflationary and undesirable.

As will be seen from Table III, the net charge to revenue in each year is identical with that arrived at under the sinking fund method as shown in Table II. It has, however, reached that result by offending against sound principles in having added interest to the asset account, and then correcting this by the further error of charging out interest as though it were in fact depreciation.

(*c*) The straight line method has the advantages of simplicity and certainty of result, and enables plant registers to be more easily kept for individual items, or classes of items. It does not, however, profess to be particularly scientific in the incidence of its spread over the years, for neither it nor the reducing balance method deals with the factor of the earning capacity of the accumulating funds. Whether or not the depreciation funds are separately invested, this factor of earning capacity is at work, and both these methods therefore, in effect, have provided more than the book value of the asset, during the period over which they are ostensibly writing it off; they have provided working capital for the use of which no separate interest charge has been made. It should further be remembered in considering the straight line method—and this criticism it shares with the sinking fund and annuity methods—that unless associated with some scheme for re-appraising from time to time the residue of the period of effective life, it may cause violent fluctuations in the annual charge, when large blocks of assets become fully depreciated on the books.

Another method of depreciation, which may be regarded as coming under this heading, is one under which it is sought to write off asset costs *pro rata* on the basis of production, *e.g.* on the number of tons of steel rolled, &c. The underlying principles in such a case are those of the straight line method, using the factor of production rather than that of time. The method has its merits in periods of normal trading, when wear and tear may vary with throughput, but in times of depression it may be found that the annual charge does not adequately cover depreciation. To meet this possibility such a method will normally provide for a minimum annual charge, and may further be based upon a sliding scale.

In mining companies the same principle may sometimes be applied to the permanent plant, using as a basis the volume of material worked in the period, compared with the volume which remains capable of being won.

I do not intend to choose between the above three categories of method, for each is specially suitable for particular cases. To take extremes, in order to confirm this point, it may be instanced that the reducing balance method would appear specially applicable to such assets as a luxury liner, whose main revenue may be expected in its earlier years, whilst the sinking fund method would appear preferable for certain public utility companies, where it is necessary to spread the charge fairly, taking interest into account, as between succeeding generations of consumers.

The effects of these two methods in their rate of writing off an asset over the years are, as shown in Table V, exactly opposite to each other, and this fact alone as a matter of practical politics, may be taken as an indication that in many cases, where no special considerations arise, rough justice may be done by accepting a mean between the two, such a mean being approximately given by the straight line method.

On grounds of prudence, however, there is much to be said for the method of depreciation on the reducing balance, provided the rate is high enough. In view of current criticism, it is perhaps fair to the Income Tax Authorities—subject to the same proviso—to point out that the allowance of the major charge in earlier years is to the taxpayer's advantage, not only from the point of view of interest on tax payments deferred, but also because in these uncertain days "a bird in the hand is worth two in the bush."

It will be seen from Tables II and III that under the sinking fund and annuity methods, when interest is taken into account, the effective charge on the business for depreciation over the years is constant, as it would in fact be if the annual provision were paid for an outside redemption policy. It may be worth while to consider what is the effective charge on the business for depreciation, if in fact interest be calculated on the sums set aside under the straight line and reducing balance methods. Table VI shows the result and from that table it would appear that:—

(*a*) Inasmuch as the sinking fund and the annuity methods produce a level annual charge on the business, they might not inaptly be called "straight line" methods.

(b) The method ordinarily known as the "straight line" method is akin to a reducing balance method in that the annual depreciation charge which it imposes on the business gradually declines.

(c) In the case of the method ordinarily known as the "reducing balance" method there is no charge at all on the business in the later years, but, on the contrary, a credit, since interest on the fund exceeds the charge appearing under the head of depreciation.

It is, of course, possible to suggest methods which combine certain of the features of the methods under discussion so as to avoid some of their disadvantages. For instance, if the reducing balance method be adopted it is possible to change to the straight line when the asset has been substantially reduced, and thus ensure its being completely written off. Or again, even if an asset has become fully depreciated by the straight line or sinking fund methods, and is still in use, depreciation charges may nevertheless continue in order to reflect the value of the service and to minimise fluctuations in the annual accounts and costings. A surplus depreciation provision may thus accumulate, which will represent an invaluable reserve enabling a broader view to be taken in future decisions as to choice of method, *e.g.* the straight line method may be adopted with more assurance, if a fund exists to take care of the higher depreciation charges which otherwise in the earlier years it might be thought advisable to provide by the adoption of the reducing balance method.

Whichever method is adopted, it is helpful towards a clear presentation of the balance sheet that the amount of the accumulated depreciation reserve should be separately stated. Whether so separately stated as a liability or as a deduction from the appropriate assets, it is then available for comparison with the book value of those assets, and with the liquid funds available for their replacement. Such presentation of accounts, however, pre-supposes that plant registers or other records have been kept, to ensure that the original cost of assets as sold is eliminated from the gross book value, and that the depreciation reserve as stated is therefore applicable against assets which still exist.

POLICIES.

Having decided which of the above methods shall be adopted in any given case, it remains to decide further what is the capital sum which is to be written off or accumulated. There are two main policies from which selection may be made in this regard :—

(a) To write off the original cost of the asset, whatever that cost may have been—a policy consistent with a strict definition of "depreciation."

(b) To create a fund large enough to replace that asset at the end of its effective life, whatever its replacement cost may then be.

The first of these policies assumes that the only responsibility of accounts is to keep intact the cash equivalent of the proprietor's original capital, requiring increased replacement costs of comparable assets to be found if need be out of further capital contributions, or undistributed earned surplus. The second assumes that such increased requirements should be provided for as part of normal trading in order to keep intact not only original capital, but the assets employed in their material form, or in the form of comparable substitutes. In times of decreasing costs, funds will accumulate under either policy, and will be available as working capital freed from original requirements. It is clear that if the second policy is to be carried to its logical conclusion an addition based on current costs to each year's charge should be made in times of rising prices, in order to bring previous contributions to the fund into line with what they would have been had costs then been at the higher level subsequently ruling. It is doubtful whether in practice calculations are ever made on so meticulous a basis, and it would seem sufficient, and more practicable, if this policy be adopted, that such variations on past contributions should be met by general appropriations of revenue from time to time.

The need to have regard to replacement cost is more in evidence in days of changing values such as those of recent years, than in more normal times. There is, however, a limit to the extent to which increasing capital costs, whether due to world conditions or currency depreciation, can be provided out of revenue.

Conversely, in times of falling prices, companies with old capital assets are penalised in comparison with those embarking upon new construction. In such cases there is again a limit, beyond which current trading cannot hope to provide adequately for depreciation on old, and perhaps inefficient, or non-productive plant. Revenue capabilities may have become so hopelessly out of line with the capital account that nothing short of a writing-down of capital values, with its resultant lessening of the annual charge for depreciation, can meet the case.

Depreciation allowances for tax purposes in this country can, however, only be calculated on the original cost of the asset, and cannot without altering the basic principles of tax computation, take cognisance of current values and replacement costs. An anomaly perhaps exists in the case of obsolescence in that whilst the allowance is made in respect of original cost not already allowed as depreciation, it is also limited in amount (after adding such depreciation) to the replacement cost of the asset actually replaced.

American income tax law is, apparently, different in that it allows as a deduction from gross income an item called depreciation, defined as comprising reasonable allowance for the exhaustion and wear and tear of property used in the business, including a reasonable allowance for obsolescence. This in effect represents a double advantage to the American taxpayer, for not only does he obtain the allowance irrespective of replacement, but he obtains it as the obsolescence accrues. In so far, therefore, as accounting practice tends to follow income tax procedure,

the American tax laws encourage the more prudent and correct policy.

There is a third policy, under which fixed assets of a wasting nature, *e.g.* mines, are not depreciated at all, on the theory that the money was advanced for a special venture, and that admittedly the yearly revenue includes an element of return of capital. As, however, such a policy is obviously outside our subject, there seems no point in pursuing it further.

Objects.

Whichever of the above-mentioned methods is selected as the means by which to carry out the particular policy decided upon, the objects of depreciation charges would appear to be mainly twofold :

(*a*) To enable a correct record to be kept of what is happening to the proprietor's capital, so far as sunk in depreciating assets, and to show him a correct statement of yearly revenue. These are the functions of the annual accounts.

(*b*) To maintain a correct costing record as a guide to the selling departments of his business.

It does not necessarily follow that the depreciation charge made for the annual accounts, dependent as we have seen it is on the policy decided upon, is or should be identical with the charge made for costing and quotation purposes.

For costings as a guide to selling policy the manufacturer has not so much freedom of choice, for he must have regard to the prices of competitors. For instance, if he owns property bought at periods of high prices, he may not be able to provide for its amortisation through costings and still show a profit, and conversely he may be under-quoting if he only amortises the cost of assets bought at knock-out prices.

Quotations based on costings should have regard not only to cost of the assets employed, but also to their replacement cost. In so far as this factor, if material, is not provided for, quotations will be subject to a sudden variation when such assets have to be replaced, and the selling departments will then be disorganised. It is not necessarily sufficient for costings, taking the long view, to regard expenditure on fixed assets as the fair charge to apportion over the production to which it contributes, without having regard also to changes in values which may have taken place, and to which the selling value of that production itself is subject.

In order that manufacturers may know what the correct depreciation charge should be, there is much to be said for the standardisation of costings by trades, such as has already been undertaken in certain instances. It does not, of course, follow, however perfect the costing, that an adequate price can be realised for the product, but in such circumstances competitors are at least quoting with their eyes open. There is no justification in these days for the frame of mind which regards depreciation, whether for costings or for annual accounts, as a mere book entry to be provided only when sufficient profits are available. Indeed, even if no profits are available, depreciation should be charged and added to the loss.

Appraisal.

We have so far been considering how fixed assets should be dealt with in annual accounts as a matter of historical record as to their cost, or prudent provision for their replacement. It remains to consider whether any corrective can be applied to keep the results so arrived at in line with current values.

A given asset may be capable of appraisal on many bases, all of interest from different points of view, but not all capable of reflection at the same time in the annual balance sheet, *e.g.* :—

(*a*) A scrap value appraisal may in the last resort interest the mortgagee, and an annual review for such a purpose may be desirable.

(*b*) Periodical appraisal on the basis of replacement cost may be of use for accurately assessing future capital commitments, or for determining the amount to be covered by insurance. It may also be helpful, as we have seen, for costing purposes as a guide to selling. True replacement appraisal for such purposes may need to be calculated on the cost of an entirely different and modern unit with appropriate deductions, as it would be meaningless to assume the reconstruction of obsolete plant.

(*c*) Even on the basis of depreciated original cost appraisal is sometimes desirable, in order to re-assess the residue of life of a given asset, and so adjust the depreciation reserve to date.

(*d*) A going concern basis of annual appraisal presents, however, very different problems which must now be considered.

In most cases the margin of variation in any annual re-appraisal of fixed assets on a going concern basis would be so wide as to render the keeping of annual accounts in respect of ordinary revenue transactions unimportant in comparison, and a waste of time. This margin would arise, not only out of the choice of methods of valuation available, but also out of variations in price level and even changes in the outlook of the valuers.

It would in any case be difficult for the same valuer to make proper allowances for annual variations, since he would be too near to his previous calculations to be enabled easily to remove himself from their influence. In so far as he might report that an increase in value has occurred, there would further be the inclination on the part of shareholders to regard that surplus, even though capitalised, as being in hand, thus encouraging too generous a distribution of liquid resources. Conversely, a decrease in value could not necessarily be found out of revenue.

Uncertainties arise indeed in the annual valuation of floating assets, but here the corrective of more rapid turnover is available. Assets which do not exist for realisation, and whose value is dependent on the long view of their usefulness in production, present a wholly different problem. No review of

the accounts of a large industrial business possessing such assets can usefully include an annual valuation of them.

A major difficulty in attempting such a task is that of viewing any fixed asset, once put into use, as a separate entity, and not as an integral part of the whole organisation. The going concern values of fixed assets are more dependent on their surroundings, their management and on the changing state of the trade in which they are engaged, than on their material cost. To attempt, however, to apportion to them annually some share of these intangible benefits or handicaps is a fruitless task. These matters are in the realm of goodwill which, if need be and if it exists, can be separately assessed, leaving fixed assets still to be treated on the material bases we have been discussing; if goodwill does not and is not likely to exist, such assets then assume their even more material value of scrap.

Appraisals, then, on a going concern basis, can only view the concern as a whole, and even for this purpose they must have primary regard to earning capacity. In effect, a going concern appraisal can do no more than value each asset at its material worth, and having arrived at a total, ensure that this total is not more than a reasonable capitalisation of the earning capacity of the business as a complete unit. It is for this reason that for prospectus or similar purposes, the valuer usually wishes to collaborate with the accountant in order to obtain information in regard to earnings as a guide to the maximum which his valuation should not exceed. He requires to see that in total these earnings at least cover the rental charges that he considers appropriate to the different categories of asset employed.

He cannot, in the case of an abnormally profitable business, put his valuation as high as a going concern valuation of the whole undertaking on the basis of those profits might justify. Apart, however, from assessing the extent to which an earning capacity valuation is covered by material assets valued on a going concern basis, his report is also of collateral value as a verification of the existence, and as a guide to the condition of the property.

It may not be out of place to mention here that the auditor's report on past profits for prospectus purposes should always, if possible, deal with depreciation. If this is impossible, the auditor is none the less under obligation to see that any deduction made from his profit figures in this respect in the body of the prospectus, is reasonably calculated. He must also have regard for such purposes to the new capital structure, which may call for depreciation on asset values different from those adopted in the past.

Having in mind the extent to which a review of past profits is relied on for prospectus purposes as a guide to the value of a business, it may well be that some review, together with a report on the condition of the property, will come to be included as a part of annual published accounts. Information on such lines would seem to be the most practical way in which to give an indication of current worth.

LAW.

A detailed review of English law, so far as affecting our subject, would not be possible within the limits of this address, and would not be appropriate for an international gathering. All, therefore, that will be attempted is to make a short selection from the material available in so far as it has a bearing on the principles at issue.

Except in the Income Tax Acts which specify that an allowance shall be made to represent "the diminished value by reason of wear and tear during the year," the present English legislature keeps clear of specific reference to the problem of depreciation. It is true that the Companies Act, 1929, goes so far as to require that every balance sheet of a company "shall state how the values of the fixed assets have been arrived at," but it does not venture to suggest what a suitable method of valuation should be for this purpose, nor does it even define "fixed assets." In view of the variety of considerations involved, it is perhaps as well that Acts of Parliament should not endeavour to deal exhaustively with such technical subjects.

Case law is not, however, subject to such restrictions, and having regard to the importance of the subject, it is remarkable how seldom the problem has come before the English Courts, particularly in recent years. It is also remarkable how much diversity of opinion exists as to the proper interpretation of the judgments delivered. There exists, indeed, a not uncommon view that legally depreciation and other losses of fixed capital need not be made good before distributing the excess of revenue receipts over revenue expenditure.

In considering the legal cases, however, a distinction may be drawn between depreciation of fixed assets incurred in earning profits during an accounting period, and other losses of fixed capital such as obsolescence and arrears of depreciation. It does not appear that the Courts have ever laid down that the excess of revenue receipts over revenue expenditure can properly be distributed in dividend before providing for wear and tear of fixed assets during the accounting period. In fact, in at least two cases the Court has expressed the contrary view, namely, in the executorship case of *Crabtree* v. *Crabtree* (1912), where it was held that profits were not properly ascertained before providing for wear and tear, and in the case of the *Barrow Hæmatite Steel Company* (1902), where the Judge drew attention to the popular misconception on this point, arising out of the decision in the case of the *Neuchatel Asphalte Company* (1889).

Turning to other losses of fixed capital, such as obsolescence and arrears of past depreciation, the legal decisions appear to indicate fairly clearly that such losses may be disregarded in ascertaining distributable profits, the cases of *Verner* v. *The General Commercial Investment Trust* (1894) and the *Ammonia Soda Company* (1918) being frequently cited in support of this view. It should, however, be observed, as has been stated again and again in the Courts, that each case must be considered on its own merits,

and that great care must be exercised in adopting past decisions as a precedent.

It may be noted in passing how much importance the English legal view appears to attach to an accounting period. Accountancy on the other hand is more inclined to regard deficits on revenue account, including shortages in depreciation charges, as losses which retain their revenue nature and require to be made good out of future earnings. It is indeed one of the most fruitful causes of misunderstanding in connection with accounts that they should be expected over short intervals to state true earnings, when so many considerations arising in their preparation—including particularly the subject of depreciation—are at best matters of estimation, for confirmation of which a longer view is required.

AUDIT.

Having now reviewed the problem from different aspects, it may be of interest to consider the duties of the auditor in respect thereto.

He is not, as auditor, concerned as to which of the before mentioned policies is adopted, provided it is reasonably consistently followed, and, subject to the same proviso, he is not concerned as to which method is adopted in carrying out that policy. He has not any responsibility for the methods of dealing with depreciation in costings, except so far as to be satisfied that they do not introduce an unreasonable element into the valuation of stock-in-trade or work-in-progress. These are all matters within the discretion of the Board, honestly exercised.

In regard to amount, however, he has certain definite responsibilities, both as affecting the balance sheet and the revenue account. It is noticeable in this respect how much more important the revenue account is now becoming, not only for itself, but as a means of interpreting the balance sheet. For this purpose alone a correct treatment of depreciation is necessary, and the annual amount thereof should be separately stated. The auditor has no power, however, to insist on such separate disclosure, but should use his best endeavours in that direction.

If the auditor is not satisfied that reasonable depreciation has been provided for the year, whether the amount is disclosed or not, he must qualify his report. He must do so if no depreciation has been provided for the year, unless the accounts specifically state that the results shown are before making such a charge. Any such full disclosure on the face of the accounts should, it is submitted, relieve the auditor of the need of repetition in his report.

His duties, subject to any special provisions in the Articles of Association, are limited to watching that the proprietor's capital so far as sunk in fixed assets is being kept intact, or that, if it is not, the facts are made apparent. It is not sufficient, nor necessary, for him in this respect to be satisfied—if, indeed, he can be satisfied—that asset values in the balance sheet are conservatively stated. The revenue results of the year have had the benefit of the use of those assets and a proper charge for depreciation on their balance sheet value as a minimum should be made. If for any reason this is not practicable (*e.g.*, if obsolescence or other capital losses are so large that reconstruction is the only way of dealing with the excess) he must see that the facts are disclosed.

In practice, auditors are often told that assets are being maintained so fully out of revenue that they have not, in fact, suffered any depreciation through wear and tear. This argument cannot be admitted, for however efficient the maintenance, all fixed assets, with a few exceptions such as land, must sooner or later be scrapped.

Another contention sometimes urged on the same lines is that replacements are provided out of revenue and that the value of the plant is, therefore, being kept up to date. There may be more substance in this contention, for in the long run the chief distinction between replacements and depreciation charges is that they are borne at different dates. The argument should, however, only be allowed provided the facts are made clear, or provided replacements are sufficiently regular to make the maintenance charge an accurate guide to the annual requirements under this head. There should also in such cases be a depreciation reserve in existence sufficient to cover the normal wear and tear accrued to date.

From the purely balance sheet point of view, the auditor's responsibilities in regard to depreciation are in some ways—contrary to public opinion—more limited than they are in regard to the revenue account. He is in no way a valuer, and except in flagrant cases—and then perhaps comment is superfluous—he should not be called upon to express a valuer's opinion. His comments, if given at all, should be limited to facts such as the absence or insufficiency of depreciation in past years, or the failure to write off of capital losses, or of assets no longer capable of effective use.

GENERAL OBSERVATIONS.

Having now outlined the problems involved in our subject, let us look at their application from a wider aspect.

In a sense, depreciation is the most important, as it is the most difficult, of all accountancy considerations, because, so far as it goes, it attempts the correct treatment of fixed asset values. If these assets could be stated with even the same degree of certainty and uniformity as can floating assets, means would be available toward satisfying the present-day demand that balance sheets should give an indication of current values. There must, however, always be the elements of fluctuation due to variations in earning capacity, management and markets which cannot wholly be catered for either by depreciation or by obsolescence charges, and for which appraisal is, in most cases, an unworkable alternative.

In early days, commercial depreciation of fixed assets was of small relative importance, for capital was largely of a floating nature. Nowadays, on the contrary, the earning of revenue needs in most cases the sinking of much capital in fixed assets, which assets are largely of value only so far as they

can continue to earn revenue. This tendency will no doubt become more in evidence as the industrial system becomes increasingly intense, and as invention calls further for the destruction of obsolete equipment. Hence the special need, during the present lull in business activity, to stress the importance of depreciation, so that when trade revives, accounts shall be prepared, and prices quoted, with due regard to the correct treatment of this item of expenditure.

Not only are capital assets, in total, tending to become less and less fluid, but individual units of equipment are tending at the same time to become a larger proportion of the whole. The sacrifice that must periodically be faced, therefore, has become a major factor in industrial development, and the ability to bear that sacrifice, depends largely on the adequacy, and the availability of the depreciation funds. It is one of the arguments used in favour of large mergers, that the amalgamating concerns should be able to spread this sacrifice, and so more easily keep abreast of the times. Even in their case, however—and certainly in the case of smaller units—policy tends to be subservient to the effect it is known it will have upon the published accounts. The due provision of depreciation from year to year is, therefore, much more important in its effect on the development of the industry of the country, than it is if viewed merely as a factor in the correct statement of those accounts.

In a wider sense it may be said that, with the development of the world and with the rapid transmission of ideas and material, the advantage which the more advanced nations may derive from their initiative, is of shortening duration. It is now comparatively easy for the less skilled—or even the less civilised—to adopt the processes of others, and even to erect their initial plant, freed from some of the defects of those existing in the countries which took the lead. The shortening of this lag in point of time for reaping the advantages of invention puts a perpetual drive on the more advanced nations, if they wish to maintain their standard of living, to embark upon more and more improvement, and to scrap existing assets. It is for this reason that early writing off is more important than too meticulous a choice of method.

It may be that in this country we have tended to produce too good an article for the purposes required. There is no particular harm in this in the case of consumables, so long as the demand remains. In regard, however, to the production of capital assets designed for revenue earning purposes, it is becoming increasingly necessary that, in considering the degree of quality and durability to be put into their construction, due allowance should be made for the possibility that they may be obsolete before they are worn out. A margin for safety is, of course, desirable, but in so far as these two factors can be made to coincide, a future charge for obsolescence may be avoided and a business enabled more readily to adapt itself to changing conditions.

In considering the true significance of industrial accounts, we are continually thrown back to the conclusion that, having once embarked upon a venture requiring capital outlay, the proprietor has cast his bread upon the waters; thereafter, subject only to scrap values, it is the earning capacity which is all important, not only in itself, but as the only satisfactory indication of capital values.

Carrying this thought to its logical conclusion, one can regard fixed assets (except for their scrap value) as representing merely revenue expenditure incurred in advance of operations. One can imagine a balance sheet recording only liabilities, funds and floating assets (including scrap value of fixed assets), the residue of the fixed assets and other unrepresented assets being carried in suspense as a set-off against the share capital and free reserves. The fixed assets thus suspended would be kept as a memorandum account for the sole purpose of assessing the correct sum to be provided annually for their renewal, by whichever method and policy has been agreed upon. This sum would then be accumulated as a depreciation fund, shown as such on the balance sheet, with its relative investment in floating assets.

The above is not suggested seriously as a suitable form of modern balance sheet, though in underlying principles it has something in common with the double account system adopted by railway companies. As an extreme, it at least emphasises the limitations of annual accounts, and is the logical answer to those who clamour for a balance sheet to be from year to year a true statement of current value. It also emphasises the need—too little observed—of keeping a reasonable proportion of the depreciation fund in liquid form, and at a reasonable proportion of the total capital expenditure requiring renewal.

In so far as the depreciation fund is not liquid, the effect is that the fund required against one fixed asset is invested in another fixed asset; a policy which, if carried to extremes, results in over-spending on capital account—one of the most fruitful causes of financial difficulty. The proportion of the fund which as a minimum should be kept liquid varies in different businesses, but it is worthy of remark that in those which are subject to changing conditions, the practice of investing the fund in additional manufacturing assets may lead not only to absence of resources when required, but also to the very negation of the fund because at that same time the plant which represents the fund may itself be obsolete.

If the limitations of balance sheets become more universally recognised, it remains to consider what steps in regard to depreciation may be taken to make them, in conjunction with the profit and loss account, more helpful to the average investor as a guide to the progress of his investments. It would appear neither practicable nor desirable to lay down the method or the policy of depreciation which public companies should be required to follow; for this involves decisions which each should be allowed to work out for itself, and to suit its own case. It would, however, appear reasonable that any such company should be required to declare the policy it is adopting and the method by which it proposes to make that policy effec-

tive. It should also be required to show annually the amount of depreciation charged to carry that policy into effect, and if it changes its principles in this respect to any material extent it should let that change be known.

CONCLUSIONS.

In order to be as definite and constructive as possible, I will conclude by endeavouring to summarise some of the points which seem to have emerged.

Depreciation is as much a charge in the year's accounts as is any other item of expenditure the cash payment in respect of which is more closely related to the period in question. It is not an appropriation to be provided only when profits are available.

The difficulty of its treatment involves the central problem of modern accountancy, namely, the spreading of expenditure—or of income—fairly over a period of time.

In spreading an asset's cost over its effective life, there are other factors, besides that of time, to be considered, *e.g.* the curves of usefulness and cost of upkeep, interest and residual value. Obsolescence, too, is a vital factor requiring the original estimates of effective life continuously to be revised.

Certain assets can be so maintained that it may be said they do not physically depreciate. In such case the provision for depreciation—though none the less necessary—is in effect a provision for obsolescence.

Effective life of a whole unit may be extended by the renewal of parts thereof. In some cases the question of renewals is the major consideration in the whole problem, which then requires to be dealt with from that point of view.

There are also questions of policy involving the desirability or otherwise of providing out of revenue for replacement at a different cost, whether that difference be due to modern improvements, changing price levels, or to the abnormal price of the original purchase.

In these uncertain days there is more to be said for a broad and prudent policy than for one limited to the exact writing off of past expenditure in a pre-determined way.

Having decided on the policy, the desired object may be attained by a variety of methods, of which the reducing balance, the straight line and the sinking fund (or the annuity) methods are the orthodox examples.

Each has its special characteristics, to be considered on their merits when selecting the method most suitable for a particular case. Methods can be devised to combine the advantages of each.

Other considerations being equal, favourable regard should be given to the method which accumulates depreciation as early as is reasonably possible. A reasonable portion of the provision to date should be kept liquid.

In all these decisions the undesirability of violent fluctuations both in annual accounts and in costings should be borne in mind. Quotations based on costings should have regard to replacement costs.

Income tax allowances for depreciation have a deep effect on the economic development of a business or an industry, apart altogether from their primary purpose of fairly assessing tax payments.

Depreciation, as commercially understood, does not seek to leave the residue of expenditure at any moment of time as a true indication of the value of fixed assets.

Appraisals for such a purpose must, when required, be specifically made. They have certain definite uses in specific circumstances, but they are not practicable as an annual review of variation in value.

An auditor is not a valuer and, except in special cases, is under no obligation to comment on fixed asset values. He has, however, a very real responsibility in regard to the provision of depreciation for the period under audit. He must see not only that it is reasonably adequate, but that, if calculated on bases which vary substantially as between different accounting periods, the facts are sufficiently disclosed.

English law has recognised an accountancy distinction between fixed and floating assets. It has not, however, given any very clear indication as to the rules governing the treatment of assets in the former category and is inclined to leave to each company a wide discretion within the four corners of its own regulations.

With capital values changing as violently as in recent years, there is apt to arise at times a feeling that the normal relationship of revenue to capital is out of joint; that revenue cannot be expected to provide for capital losses and that a careful calculation of depreciation charges has therefore lost any present-day usefulness. Nevertheless, however clear it may be in extreme cases that nothing short of capital reduction will meet the situation, it cannot be too clearly remembered that the distinction between depreciation and maintenance is mainly a matter of date of provision. Depreciation is a very real operating expense and needs providing for just as much —perhaps even more—in bad times as in good.

Apart from dealing broadly with the accountancy aspect of the subject, I have endeavoured to touch on underlying principles. I have done so because I feel that if accountancy is not so founded, it will not adequately be playing its part towards the solution of the industrial problems of the day.

Finally, I have endeavoured to express views which I hope may be common ground to the profession. If such views in regard to depreciation can be accepted, annual accounts, with all their limitations, should, in this important aspect, at least be capable of correct interpretation. My remarks have been directed towards that end.

***Table I.—REDUCING BALANCE METHOD.**

		Units.
Total cost of asset	.. ..	100,000
Residual value ..	.. ..	5,000
Amount to be amortised	..	95,000

Year	Amortisation at 5% per annum		Amortisation at 13.911% per annum	
	Annual provision	Balance of asset account	Annual provision	Balance of asset account
1	5,000	95,000	13,911	86,089
2	4,750	90,250	11,976	74,113
3	4,512	85,738	10,310	63,803
4	4,287	81,451	8,876	54,927
5	4,073	77,378	7,641	47,286
6	3,869	73,509	6,578	40,708
7	3,675	69,834	5,663	35,045
8	3,492	66,342	4,875	30,170
9	3,317	63,025	4,197	25,973
10	3,151	59,874	3,613	22,360
11	2,994	56,880	3,110	19,250
12	2,844	54,036	2,678	16,572
13	2,702	51,334	2,305	14,267
14	2,567	48,767	1,985	12,282
15	2,438	46,329	1,708	10,574
16	2,316	44,013	1,471	9,103
17	2,201	41,812	1,266	7,837
18	2,091	39,721	1,090	6,747
19	1,986	37,735	939	5,808
20	1,887	35,848	808	5,000
	64,152		95,000	

***Table II.—SINKING FUND METHOD.**

If C units = Original Cost of Asset,
R units = Residual Value,
A units = Amount of an annuity of 1 unit for 20 years, at 4 per cent.,
Then fixed annual provision to Sinking Fund,

$$= \frac{C-R}{A} \text{ units.}$$

Year	Fixed annual provision	Interest at 4% on total of fund	Total annual provision	Total depreciation fund	Asset at cost less depreciation fund
1	3,190	—	3,190	3,190	96,810
2	3,190	128	3,318	6,508	93,492
3	3,190	260	3,450	9,958	90,042
4	3,190	398	3,588	13,546	86,454
5	3,190	542	3,732	17,278	82,722
6	3,190	691	3,881	21,159	78,841
7	3,190	846	4,036	25,195	74,805
8	3,190	1,008	4,198	29,393	70,607
9	3,190	1,176	4,366	33,759	66,241
10	3,190	1,350	4,540	38,299	61,701
11	3,190	1,532	4,722	43,021	56,979
12	3,190	1,721	4,911	47,932	52,068
13	3,190	1,917	5,107	53,039	46,961
14	3,190	2,122	5,312	58,351	41,649
15	3,190	2,334	5,524	63,875	36,125
16	3,190	2,555	5,745	69,620	30,380
17	3,190	2,785	5,975	75,595	24,405
18	3,190	3,024	6,214	81,809	18,191
19	3,190	3,273	6,463	88,272	11,728
20	3,190	3,538	6,728	95,000	5,000
	63,800	31,200	95,000		

* *See notes at foot of next column.*

Table III.

If p units = present value at 4 per cent. of 1 unit due at the end of 20 years,
And P „ = present value of annuity of 1 unit for 20 years at 4 per cent.,
Then fixed annual provision

$$= \frac{C-R.p}{P} \text{ units.}$$

Year	Fixed annual provision	Interest at 4% on depreciated value of asset (added to asset account)	Net charge to profit and loss account	Total of depreciation fund	Asset at cost less depreciation fund
1	7,190	4,000	3,190	3,190	96,810
2	7,190	3,872	3,318	6,508	93,492
3	7,190	3,740	3,450	9,958	90,042
4	7,190	3,602	3,588	13,546	86,454
5	7,190	3,458	3,732	17,278	82,722
6	7,190	3,309	3,881	21,159	78,841
7	7,190	3,154	4,036	25,195	74,805
8	7,190	2,992	4,198	29,393	70,607
9	7,190	2,824	4,366	33,759	66,241
10	7,190	2,650	4,540	38,299	61,701
11	7,190	2,468	4,722	43,021	56,979
12	7,190	2,279	4,911	47,932	52,068
13	7,190	2,083	5,107	53,039	46,961
14	7,190	1,878	5,312	58,351	41,649
15	7,190	1,666	5,524	63,875	36,125
16	7,190	1,445	5,745	69,620	30,380
17	7,190	1,215	5,975	75,595	24,405
18	7,190	976	6,214	81,809	18,191
19	7,190	727	6,463	88,272	11,728
20	7,190	462	6,728	95,000	5,000
	143,800	48,800	95,000		

See notes below.

TABLE I.

Notes :—

(1) A rate of 5 per cent. which on the straight line method would write the asset off in 20 years has, on the above method, written off less than 65 per cent. thereof.

(2) In order to leave at the end of 20 years a residual value of 5 per cent. of the cost of the asset, a depreciation rate of nearly 14 per cent. is required.

(3) For comparison purposes it may be noted in this and in the following tables that on the straight line method the annual provision would be 4,750 units.

TABLE II.

Notes :—

(1) If interest is provided from external investment, the fixed annual provision is, like that under the straight line method, constant in amount though a lesser sum.

(2) If interest is an internal book entry, the increasing annual charge to revenue corresponds with that arrived at under the annuity method in Table III.

TABLE III.

Notes :—

(1) Including the factor of interest, the fixed annual provision is, like that under the straight line method, constant in amount though a larger sum.

(2) The interest column is in effect an annual credit to revenue of 4,000 units (4 per cent. on the cost of the asset) less an annual charge corresponding in amount and nature to the interest charges shown in Table II under the sinking fund method—hence the fixed annual provision in the two methods differ by the 4,000 units, though their final effects on the asset account are identical.

4

Table IV.

PERCENTAGE OF ORIGINAL COST WRITTEN OFF, UNDER REDUCING BALANCE METHOD, AT EACH YEAR END.

Year	5%	6%	7%	8%	9%	10%
1	5.00	6.00	7.00	8.00	9.00	10.00
2	9.75	11.64	13.51	15.36	17.19	19.00
3	14.26	16.94	19.56	22.13	24.64	27.10
4	18.55	21.92	25.19	28.36	31.42	34.39
5	22.62	26.61	30.43	34.09	37.59	40.95
6	26.49	31.01	35.31	39.36	43.21	46.86
7	30.16	35.15	39.84	44.21	48.32	52.17
8	33.66	39.04	44.05	48.67	52.97	56.95
9	36.97	42.70	47.97	52.78	57.20	61.26
10	40.12	46.14	51.61	56.56	61.06	65.13
11	43.12	49.37	55.00	60.03	64.56	68.62
12	45.96	52.41	58.15	63.23	67.75	71.76
13	48.67	55.26	61.08	66.17	70.65	74.58
14	51.23	57.95	63.80	68.87	73.29	77.12
15	53.67	60.47	66.33	71.37	75.70	79.41
16	55.99	62.84	68.69	73.66	77.88	81.47
17	58.18	65.07	70.88	75.77	79.87	83.32
18	60.28	67.16	72.92	77.70	81.68	84.99
19	62.26	69.14	74.81	79.48	83.33	86.49
20	64.15	70.99	76.58	81.12	84.83	87.84
25	72.26	78.71	83.76	87.51	90.53	92.82
30	78.54	84.37	88.70	91.77	94.10	95.76
40	87.15	91.58	94.46	96.42	97.70	98.52

Table V.

Graph showing balances left on the asset account at each year end, under each of the methods of depreciation referred to in the foregoing tables.

Balance on Asset Account

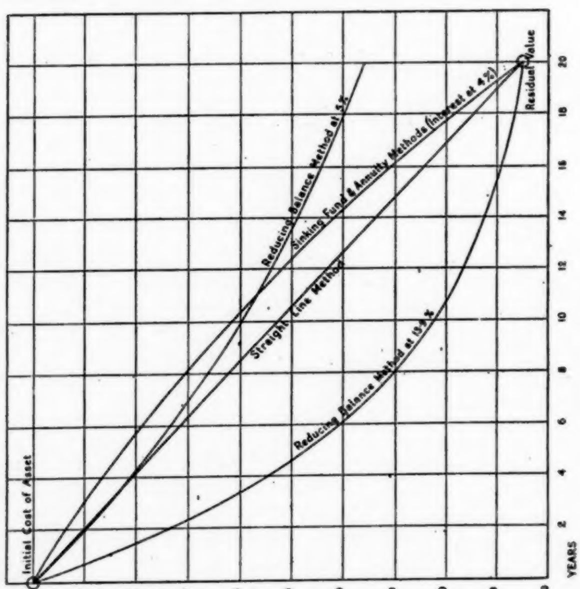

Table VI.

Table showing the effective depreciation charge against revenue under the foregoing tables, if credit be taken for the interest deemed to accrue annually at 4 per cent. on the accumulating fund.

Year	Sinking Fund and Annuity Methods	Straight Line Method	Reducing Balance Method	
			at 5%	at 13.91%
1	3,190	4,750	5,000	13,911
2	3,190	4,560	4,550	11,420
3	3,190	4,370	4,122	9,275
4	3,190	4,180	3,717	7,428
5	3,190	3,990	3,331	5,838
6	3,190	3,800	2,964	4,469
7	3,190	3,610	2,615	3,291
8	3,190	3,420	2,285	2,277
9	3,190	3,230	1,971	1,404
10	3,190	3,040	1,672	652
11	3,190	2,850	1,389	4
12	3,190	2,660	1,119	— 552
13	3,190	2,470	863	—1,032
14	3,190	2,280	620	—1,444
15	3,190	2,090	389	—1,801
16	3,190	1,900	169	—2,106
17	3,190	1,710	— 38	—2,370
18	3,190	1,520	—236	—2,596
19	3,190	1,330	—425	—2,791
20	3,190	1,140	—604	—2,960
Effective depreciation charge	63,800	58,900	35,473	42,317
Interest	31,200	36,100	28,679	52,683
Total provision	95,000	95,000	64,152	95,000

Notes :—

(1) The "total provisions" over the period are in effect made up of interest in each case to the extent shown above, but it is only in the sinking fund and annuity methods that they are normally so regarded.

(2) Conversely, if interest were charged on the fund accumulating from the gross sums provided annually as depreciation under the straight line and reducing balance methods, the "total provision" over the period would be substantially more than sufficient to write off the asset account.

Mr. Fedde's Paper.

Mr. FEDDE said: Although the paper prepared on this subject by Mr. Howitt was in my hands prior to the release of my own, it was not read by me until this had been written in final form. That the premises in the preliminary considerations in the two papers should contain the same thought is therefore some indication that accountants on both sides of the water have the same basic principles in mind, and a recognition that there are fundamentals upon which accountancy practice is based.

GENERAL COMMENTS ON PRINCIPLES AND CONDITIONS.

In an accounting sense the term depreciation is considered in a somewhat different light than as mere loss of value, the thought involved being more that of an apportionment of values upon an equitable basis as between capital and expense. Depreciation connected with values pure and simple, with no element of useful life entering into consideration,

is applied in the accounting sense mainly to marketable securities and commodities. Depreciation in the sense of its application to fixed tangible assets means the consumption in production processes of a preliminary outlay in such assets as make production possible. As applied to fixed intangible assets, patents, copyrights, franchises, and the like, it means the consumption of the original outlay for such assets through the passage of the time to which their life is limited. Thus we have one class of assets subject to physical depreciation from a combination of use and passage of time, and another class subject to depreciation from the passage of time alone. Both classes are subject to obsolescence.

This depreciation takes place regardless of rise or fall in values of labour and commodities. The cost of labour and bricks, mortar, lumber and steel to produce buildings or machinery may rise in a certain year and thus cause buildings and machinery already constructed and in use to rise in value, but such valuation rise has nothing to do with the depreciation charged at the same time to measure the cost of the shrinkage in life span of the fixed assets.

Similarly, the maintenance of efficiency at a relatively even level throughout the life of the asset has no relation to the measurement spoken of, except that a high degree of maintenance may prolong the life of the asset and neglect of maintenance may shorten it. This maintenance of efficiency has been cited by some as proof that depreciation was not then taking place. By close attention to repairs the asset may continue to be as good as new, so far as its functioning is concerned, and the life of the unit may be prolonged beyond that which it would have if such maintenance were not so assiduously applied—but its life, long or short, certainly has an end. The theory that depreciation in such a case does not occur seems to be due to a confusion as to the implication of the term rather than any misunderstanding of the facts. This, no doubt, arises from a mental substitution of current values as measured by efficiency for depreciated values in the accounting sense which is less related to current efficiency of the asset. The latter is the proration of the initial outlay—or prepaid expense as it might be termed—over the estimated life of the asset; the former is the application of the term depreciation in a non-accounting sense as related to day-to-day or year-to-year money value as measured by the capacity of the asset to function.

In the early life of an asset efficiency may increase, such as in the increased smoothness of operation of a machine, and the maximum of efficiency may be maintained for a considerable part of the asset life. For some time thereafter its efficiency may decline but slightly—a decided decline in efficiency naturally marking the end of its useful life. In an accounting sense one does not consider that appreciation has taken place with the increased efficiency, nor that depreciation has been suspended or delayed with maintenance of efficiency, nor that depreciation has suddenly taken place at the close of the useful life of the asset.

The term obsolescence applies to complete or partial loss of useful life from causes unconnected with the physical condition of the asset. It has suffered a functional loss, though physically it may remain unimpaired.

An asset suffers obsolescence from engineering improvements and new inventions which render it either partially or completely useless. An instance of partial obsolescence is seen in the improvements of engines in steamships which have rendered some types partially, but not entirely, obsolete. The sailing vessel, on the other hand, became completely obsolete for most commercial purposes upon the invention of steam for propulsion of ships. Sailing vessels moored in the harbour of New York with bowsprits projecting over South Street some 40 years ago are only a memory.

Other obsolescence may arise through inadequacy or supersession. If we were to consider these two causes of functional loss as being depreciation instead of obsolescence, we would depart from the use of the term depreciation in the accounting sense as to life proration of fixed assets, and begin to apply it in the non-accounting sense as referring to valuation. I prefer, therefore, the term obsolescence to designate the cause of decline in values due to any functional loss as distinguished from physical deterioration.

Inadequacy occurs when an asset is no longer capable of fulfilling the needs of the particular business, though physically it may function as well as previously. When a set of machines is scrapped because larger ones are needed to furnish the desired output they have, so far as that business is concerned, suffered obsolescence because of inadequacy.

Supersession occurs largely through demands or requirements of the public, as, for example, demands for highways constructed of concrete, more comfortable apartment houses, more luxurious passenger steamships, underground electric transmission lines, more convenient telephone equipment, and the like. For example, the telephone transmitter carrying the receiver on a hook, which was in universal use in the United States, has suffered partial obsolescence through the demand of a considerable part of the public for the so-called hand phone embodying both transmitter and receiver in one piece.

Obsolescence through inadequacy and supersession occurs to a greater extent in new territory where the population is increasing. In some relation to the increase in population, capital assets become inadequate; and other assets, such as roads, hotels, civic buildings, and means of transportation become superseded by the necessity of accommodating both a larger population, and popular demands that the facilities be improved simultaneously with their expansion.

In the United States the rate of obsolescence in the past 25 years from the three causes of invention, inadequacy and supersession has been enormous. Demanding new and improved things had become a habit and led to great extravagance. Beautiful residences, costing in some instances millions of

dollars, were purchased and scrapped to make room for shop buildings, huge apartment houses, and great hotels. A building one hundred years old anywhere in New York City—or in the whole country—is a curiosity, but not yet an object of interest. Change in type of city dwellings furnishes a notable example of supersession. In some cities whole blocks of private houses were torn down to make way for apartment houses, and in turn apartment houses which are now twenty years old are partly obsolete because of the greater convenience and luxury embodied in newer ones.

For a number of years automobiles were so frequently changed in design that thousands of people made new purchases each year in order to be in possession of cars with the latest improvements. This great demand required constantly enlarged plants and machinery for production. In short, a very considerable part of industry in the United States for many years was concerned with the construction of capital goods on account of inadequacy and to supersede those no longer considered suitable. Idle and abandoned plants scattered over the country bore mute witness to this condition.

The slackening in pace in the construction of capital goods would be felt more in the United States than in Europe because a larger proportion of the workers in the States are engaged therein. A study of this phase of American industry might throw considerable light on the reasons for present unemployment. It might be found that too great a proportion of the workers was engaged in the production of capital goods with the result of abrupt decline in employment as an accompaniment to decrease in inadequacy and supersession obsolescence.

Where obsolescence has been incurred in total, naturally the asset values which remain require to be charged off except for any residual value. Where it has occurred in part, the asset value remaining requires to be written down in order that operating costs, including depreciation charges based on the remainder, may be comparable in the cost of production with operating costs per unit of production of the improved machine or other asset.

METHODS.

Methods of providing for depreciation are enumerated in the paragraphs following; and with it understood that each method contemplates the writing down of the asset to the residual or salvage value at the end of the useful life, repetition of that statement will be unnecessary.

(1) The reducing balance method
consists of the application of a uniform rate, calculated on the balance of the asset less depreciation previously written off.

(2) The straight line method
consists of the application of a rate to the asset value without reduction for depreciation taken.

(3) The production unit method
provides amounts out of income based on output. In its application to mines, oil wells, &c., it is termed depletion.

(4) The sinking fund method
is used to set aside equal instalments in a fund, the instalments plus compound interest on the accumulated fund being calculated to reach the amount required over the intended term.

(5) The annuity method
involves the charging of interest on the value of the asset diminished by accumulated depreciation (the contra credit for interest charged being to income), the cost of the asset plus interest thereon, calculated as above, being written down in equal periodical amounts. The charge to operations is for depreciation and use of the asset value, and is therefore made up of depreciation plus interest on the investment.

(6) The maintenance and depreciation method,
as its name indicates, employs a charge contemplated to spread combined repairs and depreciation over the life of the asset in equal annual instalments.

(7) The retirement reserve method
is a flexible means used to accumulate or to appropriate amounts out of income or surplus for the retirement of assets at the end of their useful life.

(8) The appraisal method
involves a valuation of assets, stating cost of reproduction on the basis of current prices less accrued depreciation thereon; the difference between book values of the assets and appraisal values being charged off as depreciation.

The oldest method is, no doubt, the reducing balance method, which is largely used in Great Britain. Its general use is recognised in regulations under the Finance Act, which will be commented upon later. An advantage appertains to it in its ease of application, under which an item cannot inadvertently be made the subject of additional depreciation once it has been fully depreciated. Another advantage is that smaller amounts are charged for depreciation in the later years of the asset life when maintenance costs would normally be increasing.

These advantages accrue mainly in the case of the smaller industrial concerns, and diminish in proportion as the concern expands, with investment in new and additional plant made from time to time. The expansion would have the effect of spreading the heavy repairs over various periods with fair equality, whereas in the case of a single small organisation the charges might be much heavier in certain years than in others. Certain disadvantages are illustrated following mention of the straight line method.

In the United States the straight line method with the depreciation reserve account is in almost universal use in industrial concerns. Small firms that do not keep detailed records of plant items, keep the asset accounts in some form of general classification. To

avoid calculating depreciation on assets fully depreciated, an analysis by years of installation is kept, so that additions to an asset account made, say, in the year 1925, and subject to a 10 per cent. rate of depreciation, will be cleared by the depreciation charge in the year 1934 except for a remainder, representing the charge for a portion of a year, to be written off in 1935. The amount shown in the analysis as purchases or installations in the year 1925 will have been balanced by amounts, entered in yearly columns, until the total of such amounts equals that in the asset column.

Some concerns, including many of the larger ones, keep detailed records of principal plant items on which is recorded the depreciation written off and the final disposition of the asset. This record is in some cases in balance with the controlling accounts and in other cases it is a memorandum record.

The straight line method has conservatism in its favour, in that rates may be used that do not appear unduly high, but, being calculated on the original cost, succeed in writing down the assets in a considerably shorter time than the reducing balance method. This is of considerable moment in a country of rapid industrial expansion where invention, inadequacy, and supersession frequently leave substantial amounts to be written off as lost, in spite of high depreciation rates used.

For example, a rate of 4½ per cent. applied on the straight line method to a cost of $1,000 will reduce it to a scrap value of $100 in 20 years, whereas, to effect the same reduction in the same time by the reducing balance method, a rate of 10.875 per cent. is required. The 4½ per cent. rate applied on the reducing balance would require approximately 50 years to effect the same reduction; while at the end of 20 years there would be a balance remaining of $398, or 39.8 per cent. of cost, which in most cases would be far in excess of scrap value.

Considering conditions, I am strongly of the opinion that the straight line method is much more suitable in the United States than the reducing balance method.

The production unit method is used for calculation of estimated depletion of mines, wells, timber land, and the like. It is also used considerably by public utilities, based on the sale of gas and electric power. This will be further mentioned in the consideration of retirement reserves.

The sinking fund method is used mainly where the purchase of the asset is financed by means of long term indebtedness. However, a provision by means of a sinking fund for retirement of debt may or may not synchronise with actual depreciation, and where a reserve is created for such retirement its relation to actual depreciation should be noted.

Sometimes securities are set aside as investment of depreciation reserve in order that these may be earmarked as capital to avoid being claimed by the Government to be investment of surplus not employed in the business. (Accumulation of surplus not required in the business is subject to a penalty tax under the Federal Revenue Act.) This, however, is not necessarily an application of the sinking fund method, but may be an accumulation of depreciation funds under any method. Obviously, the retention of funds in available form, secured from the operation of the depreciation reserve, contributes to the financial strength of an enterprise.

The use of the annuity method is sometimes advocated in cost accounts. It is troublesome to apply in the case of assets having a comparatively short life, and in which there are frequent changes. It can well be used, if desired, in the case of a single asset of long life such as a building or leasehold. The advantages claimed for it are that it equalises cost to the concern owning the asset outright with that of one holding the asset and paying interest on a bonded indebtedness, and indicates the profit or loss after absorbing an interest charge for the amount locked up in a fixed asset. It is similar in theory to the charging of rent into the accounts for a wholly owned plant. The method is not in extensive use so far as I can ascertain.

The maintenance and depreciation method is very little used, and mainly in those cases involving a single unit or a compact plant. The same result, namely, of spreading maintenance as evenly as may be, is accomplished by accumulating a reserve for extraordinary repairs—as distinguished from current ordinary upkeep—in addition to the reserve for depreciation.

Retirement reserves are accumulated mainly by public utility corporations operating under State systems. Depreciation reserves are used by transportation and communication companies operating in interstate business, the accounts of which are prescribed by the Interstate Commerce Commission.

The operation of retirement reserves is mainly for the purpose of equalising the charge for retirements, the charges being made to "retirement expense" account or to surplus or to both. If upon retirement of plant the credit balance in retirement reserve is insufficient to cover the amount to be written off, the excess of the latter is charged to "property abandoned." This system is based on the theory that the useful life cannot be determined with reasonable accuracy and that therefore flexibility in appropriations is desirable and necessary. It is claimed with good reason that time is not the governing factor in the useful life in the case of public utilities—that invention, inadequacy and supersession are more often the cause for retirement of plant, and that, therefore, the management, in addition to giving consideration to past experience, must look ahead and attempt to forecast retirement by the trend of requirements, making such charges and appropriations as conditions indicate to be desirable. That theory is finding quite general advocacy among power and light companies. However, that which is considered maintenance probably includes replacements which might, under a different system, be considered capital outlay.

The appraisal method will be dealt with in a separate section.

In connection with this discussion of methods, it is of interest to note the totals accumulated as depreciation or depletion by the principal industries in the United States, apart from public utilities and railroads, as expressed in percentage of reserves to gross plant. The compilation was made by an investment banker for his own use, and is stated to represent between 70 per cent. and 90 per cent. of the total production capacity of the respective industries. These percentages are as follows :—

Steel	30
Oil	43.8
Motor	37.9
Copper	29.1
Electrical	63
Chemical	41.8
Meat packing	41.2
Rubber	39.2
Cement	35.5
Textiles—Cotton	45.8

IMPORTANCE OF DEPRECIATION PROVISION.

Charging depreciation of fixed assets on as scientific a basis as possible is necessary in order accurately to measure costs and profits and to maintain the capital of an enterprise from being dissipated by dividend payments in excess of net income. It would seem that the largest and most important single function of public accountants is to distinguish in accounting between capital and income. The measure in this respect is of materiality to stockholders both as it affects their income and the value of their investments, inaccurate valuation of securities at the time of their transfer from one person to another working unmerited gain to one and unwarranted loss to the other. Accuracy of measurement of profits is important also to company officials in order that they may avoid misrepresentation to their stockholders and the public, and that they may avoid liability for distribution of ordinary dividends out of capital.

Certain dividends are of necessity paid out of capital, such as dividends in liquidation, dividends from depletion reserves in the case of mines, &c., and dividends from paid-in surplus, which is permissible in most states. Some companies are organised with the capital divided into two parts, a small amount for stated capital and a large amount as paid-in surplus with the intention that, as cash becomes available through the operation of the depreciation charge against income, the funds may be withdrawn as dividends out of paid-in surplus. In these cases it is, of course, fully understood by the owners that amounts so returned as dividends out of paid-in surplus are returns of capital.

DISCRETIONARY DEPRECIATION CHARGES.

It lies in the discretion of the management of an enterprise or institution to choose their own policy, whether or not to provide for depreciation of donated wasting assets as, for example, a hospital building, a church building, or a club house. By donated, I mean not necessarily by a single donor—it may be by an aggregate of subscriptions or entrance fees or dues, and not represented by issued capital stock.

Where the income accounts are not charged with depreciation they are, of course, overstated by the part of the invested donations or subscriptions which have been consumed in operation. It appears to be the policy in some institutions of this character neither to charge depreciation nor to state that it has been omitted—in fact, to leave the matter of providing funds for replacement to the succeeding generations. It may happen that replacement must be currently made, perhaps because of destruction by fire or from the necessity of moving, as may happen if the property be condemned to provide for street widening or for other municipal requirements ; and the replacement then would probably require additional funds for a difference between depreciated value and cost of new construction.

It would seem no more than reasonable in such situations that those having a personal and possibly also a monetary interest, even though represented by membership and not by capital stock, should be apprised in the annual accounts that no provision has been made out of income toward the accumulation of a depreciation or replacement reserve.

REVISION OF ASSET VALUES AND DEPRECIATION CHARGES.

In the few years prior to 1930 revaluation of fixed assets was prevalent among corporations in the United States, assets which had been acquired at a cost less than the then current cost being revalued and set out on the books to include the accretion. This practice came to a sudden end toward the close of the year 1929. In the meantime in many instances the increased values were made the basis for the issue of stock dividends.

The question of depreciation immediately became one of importance. While corporation officials wished the assets carried at the increased figures, many were loath to charge operations with depreciation calculated thereon. Some charged operations with depreciation on cost and charged surplus from appreciation with the depreciation of the increase in book value. In following that practice the asset would become written off by the offset of depreciation reserve, but only the cost would have been recouped from operations, and therefore be represented by cash or other working assets, and the balance of the reserve would be merely surplus from appreciation (which lay in fixed assets) transferred to the depreciation reserve account.

Obviously the act of placing the appreciated values on the books would be the result of a firm belief that cost had permanently advanced, and, therefore, the procedure which should logically flow therefrom would be to charge to operations the full amount of depreciation in order to provide a reserve for replacement of the so much more valuable asset. From the legal standpoint, a provision out of profits to the extent of cost would be all that was required, but with the then prevalent belief in the permanence of the current level of costs, it appeared to be the part of prudence to provide for replacement at those

levels. Naturally, it seemed inconsistent to capitalise one value in the balance sheet and to provide for replacement through income of another and lower value.

The enhanced valuations have recently been in process of being deflated in the accounts—a sort of blood-letting which is supposed to be good for the patient. Fixed assets are being revalued—much of this was done in 1932—by taking depreciated values at present price levels as the proper ones to carry, and in many cases writing down plants for which no immediate use is in sight to a nominal value. As part of this process, depreciation reserves are adjusted, depreciation charges are revised, and the net amounts written down are charged off to surplus; and if further surplus is required to absorb the charge, it is provided by reducing stated or par value of the capital stock. The reports of corporations subsequently show increased profits or decreased losses by reason of decreased charges for depreciation based on the new and lower valuations.

The pre-crash financial operations and the post-crash operations seem to bring to mind a legend connected with the mythical characters bearing the euphonious appellations Jack and Jill. The justification for the present revaluation downward (naturally there must be a justification for Jack and Jill spilling all that water) is that the revision in asset values and capital structure is made through legally possible changes within the corporation which would unquestionably be proper in a sale to a new corporation, therefore a reorganisation has in effect taken place without the expense involved in a formal reorganisation. The shrinkage in value has taken place, and it is argued that the loss has been sustained and is being recognised by taking it out of capital.

Is that argument entirely sound? It is quite generally understood that the fixed assets, being in the nature of a prepaid charge to the operations in which they will be consumed, are not expected to appear in the balance sheet at market or realisable value, or value to replace, but at cost less the proportionate amount consumed charged to operations. The loss which has been sustained in the capital of the stockholders must then be the loss due to shrinkage in earning power, which is the predominant basis in valuation of capital stock. But under present conditions can that loss be said to be due to overvaluation of the concern's assets and to excess charges for depreciation accruing? With business volume much below normal, must not volume of business generally increase considerably before it can be judged definitely that the assets have suffered a shrinkage in earning power? The procedure, as carried out by a considerable number, does somehow give the impression of an impatience to help along income with the nostrum of costs artificially lowered, even though with formality and full legal sanction. The reduction in plant values is not confined to those cases where values had been increased. If that were so there would seem to be ample justification for returning the valuations to the original cost basis as being a return to conservative accounting practice.

An argument is employed that by reducing fixed asset values and consequently depreciation, the corporations will be in position to compete with concerns erecting plants at to-day's lower costs. This may sound a bit specious in view of the fact that practically no corporations are erecting plants to-day. It might be within the limits of reason to wait until construction of new plants is under way and then revalue existing plants to the cost level which would prevail at that time. Can it be that we should add another cause for obsolescence, namely, superfluity? It almost seems that the real justification for writing off or writing down assets at the present time might be due to this new kind of obsolescence.

It should be said, however, that in many cases assets which had been increased in book value are being written back to cost, rather than to the present price level which is believed by most people to be subnormal, and that the revisions are being made with great care and with consideration of all circumstances, past, present, and what may appear reasonable in the future. There are, no doubt, many capital assets for which no use can be seen in the near future and which have greatly deteriorated, and are therefore being written down to salvage value with very good reason.

But, whereas probably most corporations are making their revisions advisedly, a juncture appears at this time for occasional deliberately irrational changes.

Depreciation—British and United States Income Tax Practice.

The whole question of profits, dividends and capital is necessarily simpler in Great Britain than in the United States, for the reason that in the States we have the different jurisdictions of 48 states with laws and interpretations somewhat at variance. Uniformity of treatment is had, however, in the application of the Federal Revenue Act, commonly referred to as the income tax law, which in its administration necessarily applies the same rules of law and accounting theories throughout the land. To the income tax law must be attributed a considerable part of the credit for whatever of uniformity there may be in the accounting practices of concerns in the United States.

The principal differences between British and United States income tax practice in the matter of depreciation and related charges are as follows:—

1. The British provisions are quite general, and their application somewhat traditional, except perhaps in the case of shipping, where the procedure is similar to the Federal procedure, and scale of rates, &c., more comprehensive.

In general, the Federal law, regulations, and rulings are precise, and give recognition to a technically developed accounting procedure which is related to a scientifically organised system of large scale production.

2. In determining rates for wear and tear allowances, trade associations appear to play an important

part in Britain, and a relatively unimportant part in the United States.

3. Under the British law, losses are carried forward for six years, and allowances for wear and tear not needed as deductions may be carried forward indefinitely.

Under the Federal Law, where a net loss may be carried forward for one year, depreciation is only allowable in the year to which it relates.

4. Under the British law there is an option between the allowance for wear and tear deductible from determined profits, and the deductibility of renewals as an expense.

The Federal law has no such option.

5. The British custom is to base the wear and tear allowance on the written-down balance (except in the case of ships).

The United States practice, generally, is to base deductions for depreciation on the original cost. This method is not, however, compulsory.

6. The British have a claim for obsolescence when sustained.

The Federal law permits obsolescence (from whatever cause) to be taken into account in determining the estimated life and the annual deduction.

In addition, the loss on any partly depreciated asset may be determined and deducted in the year in which discarded.

7. Under British practice when an old machine is sold the sales price is credited to the written-down value of the asset account, no profit or loss being taken up except in case of obsolescence.

In the United States the practice is to credit the asset account with the original cost of the item sold, charge the reserve for depreciation with the sum of the amounts set up therefor, and charge profit and loss with the difference. Simultaneously, profit and loss is credited with the amount realised from the sale. Thus a profit or loss is determined when the asset is disposed of, and the asset account and the reserve for depreciation relate only to items on hand.

United States Income-Tax—Extract Quotations from Law and Regulations.

Revenue Act of 1932. Deductions from Gross Income.

" In computing net income there shall be allowed as deductions :

(*k*) Depreciation.—A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence . . ."

Art. 201 of Reg. 77. " Depreciation.— . . . The proper allowance . . . is that amount which should be set aside for the taxable year in accordance with a reasonably consistent plan (not necessarily at a uniform rate), whereby the aggregate of the amounts so set aside, plus the salvage value, will, at the end of the useful life of the property in the business, equal the basis of the property. . . . Due regard must also be given to expenditures for current upkeep."

Art. 202. " Depreciable Property.—The necessity for a depreciation allowance arises from the fact that certain property used in the business gradually approaches a point where its usefulness is exhausted. The allowance should be confined to property of this nature. In the case of tangible property, it applies to that which is subject to wear and tear, to decay or decline from natural causes, to exhaustion, and to obsolescence due to the normal progress of the art, as where machinery or other property must be replaced by a new invention, or due to the inadequacy of the property to the growing needs of the business. . . . Property kept in repair may nevertheless, be the subject of a depreciation allowance . . ."

Art. 203. " Depreciation of intangible property.—Intangibles, the use of which in the trade or business is definitely limited in duration, may be the subject of a depreciation allowance. Examples are patents and copyrights, licences and franchises. Intangibles, the use of which in the business or trade is not so limited, will not usually be a proper subject of such an allowance. If, however, an intangible asset acquired through capital outlay is known from experience to be of value in the business for only a limited period, the length of which can be estimated from experience with reasonable certainty, such intangible asset may be the subject of a depreciation allowance, provided the facts are fully shown in the return, or prior thereto to the satisfaction of the Commissioner. No deduction for depreciation, including obsolescence, is allowable in respect of goodwill."

Art. 206. " Obsolescence.—With respect to physical property the whole or any portion of which is clearly shown by the taxpayer as being affected by economic conditions that will result in its being abandoned at a future date prior to the end of its normal useful life, so that depreciation deductions alone are insufficient to return the cost or other basis at the end of its economic term of usefulness, a reasonable deduction for obsolescence, in addition to depreciation, may be allowed in accordance with the facts obtaining with respect to each item of property concerning which a claim for obsolescence is made. No deduction for obsolescence will be permitted merely because, in the opinion of a taxpayer, the property may become obsolete at some later date. This allowance will be confined to such portion of the property on which obsolescence is definitely shown to be sustained and cannot be held applicable to an entire property unless all portions thereof are affected by the conditions to which obsolescence is found to be due."

A Summary based on the British Finance Act of 1932.

Deductible as expenses annually :—

Repairs, &c.

Renewals and repairs of tools, office furniture, &c.

Renewals of plant and machinery, unless a claim is made for wear and tear allowance.

Deductible from profits (or carried forward to future years' profits) :—

Allowance for wear and tear—calculated as a percentage of written-down balance.

Deductible as expenses—when sustained :—

Allowance for obsolescence :—

Written-down cost, less salvage value.

Ships :

Allowance for wear and tear is a percentage rate calculated on cost—instead of being based on written-down value.

Obsolescence :

Not every partly depreciated machine which is discarded is subject to obsolescence allowance. If it were, the difference between the optional claim for wear and tear and the alternative deduction for renewals would be equalised. However, the Inland Revenue Authorities are becoming more lenient in permitting obsolescence allowances.

Where a department is abandoned there is no allowance for obsolescence.

Allowances for wear and tear, not needed, are carried forward indefinitely.

A true comparison of rates permitted under British and American practice is not feasible owing to the greater subdivision in classification in use by the United States Treasury Department. For example, in the British practice engines and boilers seem to be subject to a rate of 5 per cent. in all industries (though in practice possibly there is some variation), while in the United States, rates for engines are given as 4, 5, 6, and 6½ per cent., according to type, and for boilers, 4, 4½, 5, 7, and 10 per cent., according to horse-power and type. Some British rates are higher, as on farm tractors, sulphuric acid plants, and steamships, and some are lower, as on printing type.

From a rather general review, the averages of the rates do not appear to be far apart, but the method of application—in Great Britain on reducing balances (except on ships) and in the United States on the straight line method—would permit a greater allowance in the latter jurisdiction. As a material offset to that advantage, however, is the limitation on the period of time in which allowances not used to reduce taxable income may be carried forward.

Under the heading of methods of depreciation it was indicated that the reducing balance method is much used in Great Britain, while the straight line method is in quite general use in industrial concerns in the United States.

EFFECT OF ANNUAL APPRAISALS.

Appraisals are largely resorted to for the following purposes : (1) for the purpose of ascertaining insurable values ; (2) for the purpose of re-establishing asset accounts where the accounts over a period of years have been improperly, badly, or inconsistently operated, making appraisal the most practical means of starting afresh ; (3) for the purpose of sale of the property, stock issues, and bond issues ; (4) for the purpose of recognising and stating increased values in the accounts as a basis for a capital surplus credit ; (5) and recently, for the purpose of recognising and stating in the accounts decreased values, having as a corollary decreased depreciation charges ; (6) for the purposes of recognising increased replacement cost, having as a corollary the setting of sales prices or rates on a basis estimated to recover a fair return on such values instead of on actual expended costs.

Appraisals may also be had annually for the purpose of ascertaining the monetary value of depreciation as measured by current costs.

Discussion of the effect of appraisals in the instances numbered 1, 2 and 3 is unnecessary to our subject. The effects, when entered on the accounts, of appraisals in instances numbered 4 and 5, relating to revisions of capital assets upward or downward, have already been touched upon in this paper.

Utility corporations seeking the establishment of rates which will yield a certain return on the value of properties have contended that the present value of properties is the proper base for determining rates. There has been much litigation on this point, but the United States Supreme Court finally upheld the contention of the corporations. (Case of *South-Western Bell Telephone Company* v. *Public Service Commission*—262 U.S., 276.) Two members of that Court, however, dissented from the majority decision and rendered the opinion that the capital, properly invested, should be the base.

I do not know if the Courts have ever been petitioned to establish, or permit, the practice of using frequent or periodical appraisals to provide a base upon which to adjust, from time to time, the rates that would be legal. Naturally such a practice, if put into effect, might result in reduced rates in years of depression and reduced costs of capital goods.

Possibly a theoretical re-appraisal could be had at annual intervals by a consideration of the percentage change in the purchasing power of the dollar when invested in those items constituting the properties, taking into consideration the changes in the interval in the properties through purchase, sale and obsolescence.

Some smaller concerns have their properties appraised annually, but I am of the opinion that the practice is almost entirely for the purpose of insurance and not for the determination of annual depreciation. The values in such appraisals are sometimes incorporated in a footnote as a reference to the fixed asset accounts in the balance sheet to indicate current appraisal values.

As stated at the beginning, appraisals serve several useful purposes. To restate the accounts annually on the basis of appraisal values and write off the difference as depreciation or set it up as appreciation seems to me to depart from the sound accounting theory that when investment is made in a wasting capital asset it is for the purpose of consumption over a period of years in the production of a service or commodity to be sold, and is not itself a commodity primarily held for sale. The recovery of the investment, in order to maintain the capital of

the enterprise intact, is therefore the main function of depreciation charges through the operation of which there is withheld from income the proper proportional part of the initial outlay applicable to the income period.

If labour and material costs of capital goods rose consistently and continuously, and were bound to continue in that direction indefinitely, serious consideration would have to be given to the question if it would not be desirable to advance stated values of capital assets in order to lay aside adequate funds for replacement. Under such circumstances, however, with a constant and even shrinkage in the purchasing value of the dollar, the profits as measured in dollars should be sufficiently large so that an adequate surplus might be set aside to provide for the increase in cost of replacements.

However, we know out of our own experience that costs as measured in the terms of money do not advance indefinitely; that reactions and settling processes occur periodically which appear to form a new base. I am firmly of the opinion that accountants are economically correct in advocating a theory of replacement of investment in fixed assets through charges against income, so that sufficient of the revenues may be set aside to maintain the capital paid in intact in the monetary terms in which it was paid. That which was paid in in dollars should not be required to be kept intact in terms of bricks, steel or other commodities or manufactured goods. To attempt anything further at this time would seem to involve a species of political economy which can provide equal justice in treatment, as measured by monetary units varying in purchasing power from time to time, to long term creditors, long term debtors, and owners of business enterprises—and that has not yet been developed.

In Conclusion.

In the United States a condition of accelerating interest is shown in the methods of stating accounts, in the scope of examinations, and in the information contained in reports of companies. In the move for better accounting practice by corporations, the New York Stock Exchange is taking an important part, and the American Institute of Accountants is affording it full co-operation. In connection with our subject, it is interesting to note the reference to property valuations and depreciation policy in a letter issued by that Exchange under date of January 12th, 1932, addressed to the chief executives of corporations, and advising of its general attitude as to certain features in annual reports. These references are as follows :—

"(7) Full disclosure should be given of any change since the previous annual report in the basis of valuations in investments, inventories, or property account.

"(8) Full disclosure of any change in the depreciation policy should be given."

All accountants know that the operating results recorded in the books of account may vary considerably with different methods of applying charges for depreciation and obsolescence, and they would also differ materially with different methods applied in the same concern. It is, therefore, of great importance that, if the basis adopted in a case appears to be sound, it should not be discarded in favour of a different basis or different rates without keen inquiry to ascertain that the changes are entirely justified by circumstances; and it would certainly be unfair to stockholders and misleading to prospective investors or credit grantors to receive financial reports for a year on a basis differing from that of the previous period without being put on notice as to the change.

[In presenting this paper from the American viewpoint, as requested, various phases of the subject have been touched upon but briefly. Some of these are worthy of extended treatment which is not possible within the limits of a paper. Phenomena in the changing industrial economic situation have been mentioned as they are inseparable from current problems of depreciation. The subject is, therefore, one which cannot fail to be of deep interest at this time, especially to the accounting profession. I consider myself amply rewarded for my efforts by the stimulation of thought I myself have received in concentration on this subject.]

Discussion on Mr. Howitt's and Mr. Fedde's Papers.

Mr. R. A. Wetherall, F.S.A.A., in opening the discussion on Mr. Howitt's paper, said: The author did well, at the very outset, to refer to the confusion of thought which existed in regard to depreciation in its accountancy aspect and to insist that its function, in that aspect, was to spread capital outlay over the period of the effective life of the assets employed. Such a view ruled out altogether appraisals as a method of securing the provision of depreciation in accounts. The author rightly pointed out, however, that although "appraisal" was unsatisfactory as a measure of depreciation, it could be used as a means of checking the estimate which was made based upon the effective life of the asset. Except where otherwise determined by law or by the nature of the asset the question of what constituted the period of effective life was one for the engineer or other technical officer, and the method of providing depreciation in the accounts was for the accountant, although best results would be achieved when there was complete collaboration between the two in the determination of both. It was not sufficient merely to spread the capital outlay over the whole period of the effective life of the asset as so ascertained, but, as far as possible, it should be spread equitably over the different accounting periods making up that life. The effective life of a material asset, based on "use," was capable of fairly close estimate, but the factor of "obsolescence" was uncertain and unstable. He thought that greater accuracy in accounts would be obtained by making separate provision for the two factors, the one being a "charge" in the accounts and the other a general appropriation of revenue by way of "reserve." As a municipal financial officer he was rather disappointed to find the statement that the "sinking fund" method of providing depreciation was seldom adopted for commercial purposes in this country, but he was glad to note that the author accepted the view that the sinking fund contribution by local authorities in respect of trading undertakings did provide adequate depreciation. That view was not always generally accepted. Some interesting problems of obsolescence were likely to be raised when the national electricity grid became fully operative since a generating station would only be permitted to continue an isolated existence so long as it could be shown that the cost of generation was not greater than the price at which a bulk supply could be obtained from the "grid." The Electricity Commissioners had it in their power to decide in such cases

that the loss by "obsolescence" need not be written off in the accounting period in which it might occur, but might be spread over a period. On the broad questions of policy there would be general agreement with the views expressed by the author that the depreciation charge in accounts should be restricted to the amortisation of the original cost, and that anything in addition to this should be met by a general appropriation of revenue from time to time. Any attempt to adjust the annual charge to provide for "replacement value" on the logical basis described by the author would mean an involved calculation without ensuring greater accuracy in the accounts. (Applause.)

Professor H. R. HATFIELD (University of California), opening the discussion on Mr. Fedde's paper, said the paper of Mr. Fedde left unsettled some questions which he should like to hear discussed. Among these were:—(1) What was the purpose of the depreciation charge? Was it, as the author said, "to prorate initial expense"; or "to maintain the capital intact"; or "to provide a reserve for replacement"; or, finally, "to obtain comparable operating costs"? These expressions were not synonymous nor compatible. Comparable figures must include all, not merely initial costs. Maintenance of capital could not be the purpose of a depreciation charge, for depreciation should be shown even when capital was being depleted. Provision of a reserve was, in his opinion, a financial procedure, not an accounting concept. (2) Was the total amount to be charged as operating expense the exact initial cost? (*a*) Was it not inconsistent to advocate a reduction in the annual depreciation charge, in case of obsolescence, while strongly opposing a similar adjustment when the value of the machine had changed from some other cause? Was not a modification necessary in either case, if comparable costs were to be ascertained? (*b*) While it was true that the fixed assets should not appear in the balance sheet at other than cost less depreciation, should not the author give a logical, not merely a dogmatic, basis for that doctrine? Consideration might, for the present, be limited to a real change in value, disregarding a rise in prices due to inflation. (3) How was the total depreciation to be allocated to the several years? Eight methods were given in the paper. Of these two—the sinking fund method and the reserve method—were not distinct methods alternative, say, to the straight-line method. But this left six suggested methods. Could all be correct? What were the circumstances, to which the author referred, which prescribed for America a method different to that prevailing in Great Britain? In ascertaining the profits earned, was it a matter of indifference whether the charge on a machine which cost $100,000 was figured for the twentieth year at $808, or $4,750 or $6,728? The several methods were different and contradictory in principle. He was enough of a Hegelian at least to desire, when confronted by apparently contradictory principles, that an attempt be made to find some synthesis which showed that while procedures might vary with differing conditions, they all conformed to one fundamental principle. There was no intimation of such a principle in the paper, and little hint of it in all accounting literature. Continuing, he said the author was careless in seeming to imply that the reducing balance method wrote off the total depreciation less rapidly than did the straight-line method. The essential feature of any method was that enough be charged from year to year to cover the depreciation during the useful life of the machine. The use of an insufficient rate was not a method of allocating depreciation but the lack of a method. Another criticism concerned the author's attitude regarding a general rise in prices due to inflation. He stated that all that was needed was to maintain the capital in the monetary terms in which it was paid, and that even with continuously rising prices profits as measured in dollars should be sufficiently large to provide for replacements. The unfortunate thing was that unless regard was paid to the changing value of money, profits were not shown, but a misleading figure was given which was falsely labelled profits. If one bought an article for a dollar when the dollar was worth 5s. 8d., and sold it for $1.10 when the dollar was worth only 4s. 2d., there was not a profit of 10 per cent., but a loss of some 19 per cent. It was true that accounting had generally been based on the assumption of the permanency of the monetary unit, but they knew this assumption was false. In the great inflation in Germany it was, necessarily, abandoned. Perhaps they in America would have to admit its unsoundness, on practical as well as on theoretical grounds.

Mr. P. D. LEAKE, F.C.A., said that in considering the paper he desired to advocate two propositions: (1) That they must regard the capital of a profit-seeking undertaking as one whole or single unit, notwithstanding that its constituent parts were constantly changing *inter se*; consequently, that in measuring expired capital outlay—a better term, he thought, than the word "depreciation"—on any particular section of the capital, in the process of computing annual profit and loss, the use of annual interest, involved in the sinking fund and annuity methods, should be avoided; and (2) that in measuring expired capital outlay they needed the systematic co-operation and assistance of the engineers and others in charge of the material assets. As they knew, industrial capital consisted, not of money, but of things. Real capital consisted of tangible things in the form of useful materials and commodities, such as lands in possession, factories, mills and their contents, growing crops, live and dead stock, railways, shipping, mines, plant, machinery, raw materials, manufactured goods, and, lastly, metallic money, which latter probably represented no more than about 1 per cent. of their industrial capital. His point was that material assets dedicated to industrial profit-seeking could not earn interest, apart from the profit or loss resulting from the undertaking. Interest was itself profit, and therefore could not be distinguished from profits. It seemed to him that the only form of material assets which could properly be regarded as earning interest was money, and the right to the receipt of money as in the case of a purchased annuity. In support of that view he would like to take, as an example, a section of industrial capital consisting of a coalfield, and suppose that at the end of a period of ten years one-half of the original contents had been raised and marketed. In that case, half of that particular section of the capital—and therefore half the original cost—had expired or had been used up. It seemed to him that the original cost of a coalfield expired parallel with the exhaustion of its contents, just as surely as the original cost of a box of gold sovereigns might be said to have expired parallel with the removal of the contents; and so likewise the original cost of plant expired parallel with the exhaustion of its useful capacity. He then came to his second proposition, that accountants needed the systematic co-operation and assistance of the engineers and others in charge of material assets. It was, as they knew, things which represented the greater part of the industrial capital outlay, and the accountant wanted current information, and to be kept in close and continuous touch, not only with the varying quantities of material assets in industry, but also with the changing condition, and the behaviour of those things, and with their future outlook, so that he might rightly allocate as a charge to revenue a proper proportion of original cost as the things themselves were gradually used up over each accounting period. The common commercial view of the going concern value of industrial plant, which represented the greater part of industrial capital, was that the value was based upon the unexpired capital outlay on that plant computed by deducting from the cost, less estimated residual value, an equal annual instalment of that cost in respect of each year of the estimated efficient life which had expired. He thought that all profit-seeking undertakings using any class of industrial plant should keep suitable accounting records in the form of a register of plant, apart altogether from the ordinary financial ledgers, to enable expired capital outlay to be measured on a settled basis, and deducted each year from the cost of each class of plant. There would then always be a permanent record available showing the classification of all capital outlay on industrial plant, and a more direct connection would be maintained

between the actually existing plant and the going-concern value of that plant as shown in the financial books, and in the annual balance sheet. The up-to-date records in the register of plant required for that purpose called for the aid and co-operation of both engineers and accountants. If those two propositions which he had endeavoured to outline could be generally accepted, the subject of depreciation, including obsolescence, which could be treated separately from depreciation, would become a comparatively simple matter. They would then certainly avoid the employment of what was called the reducing balance of cost method of measuring annual depreciation; they would also avoid the use of the sinking fund or annuity methods; and they would not have to call for annual appraisals of plant. In conclusion, he referred to assets such as goodwill and patent rights, which, although they might have great exchangeable value, yet were only paper assets. They were intangible assets, and they appeared in a balance sheet only on sufferance. Such entries in a balance sheet were really in the nature of accounting memoranda recording the fact—important no doubt to the individual or company—that real capital had been advanced in exchange for rights to future super-profits, if and when those super-profits arose. Intangible assets represented nothing which existed, and were not real capital. In the case of joint stock companies, he would like to see all such intangible assets represented either by shares of no par value—which could be issued to the public for cash at the price they would fetch—or by premiums over par value at which the shares of fixed amount were quoted on the market. Share capital of fixed amount should always be represented by the going-concern values of tangible assets, the difference after adjusting liabilities being plainly declared as surplus or deficit. (Cheers.)

Mr. J. PELSER (Holland) said he wished to refer to what Mr. Howitt stated, namely, that it would be wise if in future less durable or permanent and less expensive buildings, machinery and plant were put down, in other words, more or less semi-permanent installations which could be more rapidly written off, and which would, therefore, present little or no difficulty on account of obsolescence. He would like to be permitted to illustrate Mr. Howitt's argument with a single example. In various countries, particularly the older civilisations, it had ultimately been found by means of experiments and improvements in what manner a product could be most economically produced. The countries where such an industry had but recently been created or developed had generously profited by the experience of other countries, and were able to equip their industries immediately on the most economical basis. A striking example was the extraordinary development which had been seen in the industry of Japan, where naturally the low rate of wages also played a part. But even without the low wages, modern equipment could afford a considerable advantage, as was the case, for instance, in the Dutch coal mines, an industry which dated from the first few years of this century. In spite of the fact that the strata were at very deep levels, they could very well compete with foreign coals. All that, therefore, pointed to the fact that they could not, and might not, postpone the depreciation or scrapping of obsolete mechanical plant until it was worn out, but that the industry must be able by means of a more rapid depreciation to scrap such plant as was no longer adapted to the improved methods of production. There was the saving in interest obtained by installing less costly plant, which had a much shorter life and consequently must be renewed much sooner. If they bore in mind that capital at an interest of 5 per cent. was doubled after about fourteen years, it followed that instead of an extremely durable plant costing about £100,000, it would be much wiser, if possible, to build one not quite so durable of about £50,000, seeing that the interest on £50,000 saved would enable them to build an entirely new less permanent installation which would then meet all up-to-date requirements. Neither of the papers submitted paid, in his opinion, sufficient attention to a system of depreciation which had existed for quite a long time, and was still applied by many business men. He referred to the determination of the amount of depreciation in proportion to the amount of profit earned, namely, a large depreciation when there was a large profit and a small depreciation when there was a small profit or a loss. He would like to defend that system and to explain it by the following: If in a certain branch of business a considerable profit was earned in comparison with the amount of capital, that would create or excite competition. Industries were expanded and new ones were established, and within a few years the entire productive apparatus was increased to such a degree that the margin of profit was reduced, owing to competition, to more normal proportions, and in many cases there was no longer a question of profit at all. A certain proportion of the producing plant had then become superfluous; the remainder was still operative, but the margin of profit was considerably reduced or had completely disappeared. Consequently it seemed to him to be logical that in the boom years in which large profits were earned large depreciations should be written off, seeing that in subsequent years the profits would no longer be sufficient to write off the necessary depreciation. Numerous examples could be quoted of that process; he need only mention the boom in freights after the war, resulting in the feverish construction of tonnage, and the present deplorable condition of the shipping companies. He would, therefore, like to suggest that, as a rule, in times of large profits, correspondingly large amounts should be written off, especially in those cases where extensions had been carried out during that time. There were naturally exceptions, such as legal or natural monopolies and patents, which might permit of such large profits being made during a number of years without risk of competition that an extra depreciation was not required. Modern times had taught them, however, that one must be very careful in that respect as a new invention could destroy a monopoly at a blow. (Applause.)

Mr. R. N. CARTER, F.C.A., said that Mr. Fedde's paper was of particular interest to accountants as showing the distinction between the practice in this country and that of America. He trusted he was not unduly optimistic in hoping that Mr. Howitt's paper would find its way into the hands of the public, who, from it, would understand the difficulties of the matter from the balance sheet point of view. Mr. Fedde had hit the nail on the head when he suggested that one of the chief points of obsolescence was superfluity. He had had a striking illustration of that about twelve months ago, while seeking a mill for foreign clients, when he found that in his town eighteen mills out of twenty were standing idle? It would apparently be impossible to foresee such a condition of affairs and it would seem sound to provide normal depreciation based on life and to leave those exceptional cases to be dealt with by capital reduction. In his view, the revaluation principle could scarcely be of much value except when a sale was likely to take place. What could be the intrinsic value of anything where they had the elements of superfluity and no likelihood of sale? It was interesting to observe that in America obsolescence was allowed without renewal. They could scarcely have that here under our existing legislation, as it would amount to an allowance for lost capital. Equally, they could not have any allowance for improvement in the process of the renewal of obsolete items. That would give the old concern an advantage over a new one. In Glasgow in his young days fear was expressed that the whole of the cost of the trams would be written off and the debt would be extinguished, and they were fearful of the tramway being made a present to the next generation. Perhaps some of his Scottish friends could tell him what had happened in that respect. There was much to be said for leaving capital assets at cost and stating the total provided for depreciation. That was an almost universal custom in the cotton trade. (Cheers.)

Mr. F. WOOLLEY, F.S.A.A., said he did not think there would be any difference of opinion at the Conference on the proposition that the charge for depreciation and obsolescence should be made to revenue account quite

irrespective of what the trading results for the year might be. (Hear, hear.) There was occasionally a tendency on the part of those responsible for the drafting of accounts to accommodate the rates of depreciation to the circumstances of the year, but such a policy was fraught with obvious dangers and auditors would always do well to advise against it. He had been very interested indeed in the reviews, in both papers that were before them, as to the various methods adopted both in this country and in the United States of America. In some ways he was bound to say that the methods applied in the United States appeared to him to offer useful propositions for consideration here, and although certain methods had become more or less well established in this country, it by no means followed that use should exclude consideration of any better methods, but he would like to stress that method was one thing, but adequacy was quite another thing. Whatever method might be adopted, it was more or less an immaterial matter upon which there might be room for legitimate difference of opinion, but there could be no room for difference of opinion that what was written off should be adequate. The trouble arose when the question was asked as to what was adequate. Obviously the auditor could not determine that matter—at any rate on his own responsibility. Rates of depreciation were too often fixed in a purely arbitrary manner without sufficiently careful study of the nature of the items dealt with and without any careful contemplation of what the future history of those items was likely to be. In his opinion, the auditor would be well advised to consult those who were technically responsible, and, if he could possibly manage it, to obtain a written report from those officers setting out the rates of depreciation recommended and the reasons therefor. Such a report would be an invaluable document for reference in later years, when it could be compared with experience, and it could be seen how far experience coincided with the reasons upon which the original rates were based and whether any adjustment was consequently needed, either from accelerated wear and tear or from accelerated obsolescence. He would like to offer a word or two on the subject of the depreciation of buildings. He rather gathered from Mr. Fedde's paper that in the United States it was the common practice to make specific provision for depreciation in respect, not only of fixed assets generally, but of buildings. That was by no means so common here as it might be, and now that they had reached the stage when industry was being revised, old factories were being scrapped and new factories erected to take their places, it did raise seriously the question of specific provision for depreciation of buildings as distinct from plant. It had no doubt been generally borne in mind and taken into account in the general reserve account, but inasmuch as any factory was likely to be superseded by newer methods within some given length of time, it appeared to raise the question that depreciation of buildings should be seriously considered as a specific provision from year to year. (Applause.)

Lt.-Col. R. C. L. THOMAS, F.S.A.A., said that in South Wales one of the main industries was that of iron and steel, where the developments in the machinery used in manufacture had undergone such sweeping changes in recent times; principally on the lines of displacing man-power by means of improved types of machinery; compelling manufacturers to make changes in their plant, thus creating a problem of dealing with the obsolescence connected with the displaced machines and involving huge sums of money. The huge sums involved in that connection made the obsolescence problem one that could only be dealt with by capital reorganisation schemes of a drastic nature. Mr. Howitt, in his paper, when mentioning the obsolescence allowance for income tax agreed by the English income tax authorities, did not include a reference to the more generous interpretation made of the regulations by the Board of Inland Revenue some twelve or eighteen months ago. He (the speaker) referred to the arrangements now in force whereby relief was granted where an asset was replaced, but not by one of identically the same type. For example, steam plant replaced by electrical, or horse-drawn vehicles replaced by motors; a number of other examples would readily occur. That concession was a very welcome one to traders of all classes, and no doubt was helping in some measure to stimulate improvements. (Cheers.)

Mr. W. H. CHANTREY said he would suggest that in the case of a complete and self-contained asset, such as a lease, the annuity method was most suitable, because it took into account the interest earned on the amounts annually set aside out of the profits. For assets, part of which were being renewed from time to time, such as plant and machinery, the reducing balance method was probably most suitable, because in addition to the fact that the largest depreciation occurred in the first few years, there was also the fact that repairs chargeable to revenue were probably smaller in those first years, and thus in some measure the charge to revenue was equalised.

Mr. W. NORMAN BUBB, F.S.A.A., said no one who had had the opportunity of reading through the two papers submitted to the Congress that afternoon could fail to have been struck by the similarity in views expressed by Mr. Howitt and Mr. Fedde in their respective papers—the former acting as spokesman for the profession in Great Britain and the latter for the profession in the United States of America. That, to his mind, was evidence of the recognition on both sides of the water of the same underlying principles, generally speaking, upon which accountancy practice was based so far as it related to the particular subject under consideration that afternoon, namely depreciation and obsolescence. He did not propose to refer in detail to the various methods of calculating depreciation placed before them in the two papers, except to observe that the "reducing balance" method seemed to be the most generally adopted in this country, whilst the "straight line" method seemed to find more favour in the United States. The latter method was, in his opinion, the simpler one to adopt as it rendered unnecessary the keeping of a plant register. He agreed with the view expressed that there was more to be said for a broad and prudent policy in those matters than for one limited to the exact writing off of past expenditure in a predetermined way. Mr. Fedde had drawn attention to the tendency in the United States a few years ago, in view of increased values, for corporations to revise the values of their fixed assets and their depreciation charges. That tendency, which was not altogether unknown in this country, would not be open to so much objection provided the increased values were permanent. Events in both countries had proved, alas! that in this changing world there was no certainty or stability about values. (Applause.)

Mr. Howitt's Reply.

Mr. H. G. HOWITT, F.C.A., replying to the discussion, said the problem they were up against was how they could best deal with the alternatives they knew existed in regard to published accounts. They could only do their best with the great problem of fixed assets. He thought the conclusion he had come to, which was also the conclusion of Mr. Fedde and the meeting, was that they were not valuers, and their contribution was to ensure that the charge made for the period in the accounts they audited was reasonable under all the circumstances. The balance sheet value that was left to represent fixed assets might be too much or too little. If it was too much, as compared with the real value of the assets, the reason was that revenue in these days could not always keep pace with the demands of wear and tear and obsolescence. There was a point beyond which revenue could not go, and reconstruction was the only alternative. On the other hand, due to changing conditions, increase in values and currency alterations, fixed asset values sometimes increased, which brought them to the question of secret reserves. Another point Mr. Wetherall had dealt with was the paradox of accounting—that there was nothing to write off when profits were not there. That struck a fundamental point. He (the speaker) did not think that provision for depreciation had anything to do with profits. It had to be provided for whether they

had any profits or not. Mr. Wetherall had suggested as an alternative that depreciation might be calculated on the load factor of machines, meaning that on machines which in any given period had not operated or worked at full capacity depreciation should be correspondingly reduced. There was a great deal in that, but if they adopted that kind of principle they must have some kind of minimum. In good times it would be all right, but in these uncertain days they could not be sure that good times were ahead, and, therefore, it was a matter of prudence that an annual charge should always be made. He was grateful to Mr. Leake for his remarks, and in reply he was bound to say that in his mind the effect of putting aside a reserve fund in the form of depreciation was like putting aside capital which was invested in the business, and was therefore available for earning profits or interest, and therefore both the straight-line method and the reducing-balance method did in fact, over the period of their operation, provide an element of interest, in that they had provided the business with working capital. Therefore, in the later years of the operation of those two methods the annual charge was very largely a matter of interest and not wear and tear provision. In fact if they had a high rate of depreciation at work, in later years depreciation became a negative figure, and the interest charge a major figure. Dealing with Mr. Leake's remarks on the question of goodwill, Mr. Howitt said that goodwill was something that had been paid for—rightly or wrongly. It did not carry with it any obligation. It was entirely different in that respect from bricks and mortar; they carried an obligation, they had to be renewed, and, therefore, had to be reserved for. Goodwill did not have to be renewed. If it was not worth what was paid for it there was the end of it. Mr. Pelser had advocated a third method of depreciation, and said that in certain instances the depreciation charge should be dependent on the amount of profits available. If they were to admit that principle they would find it difficult to refute the converse—that in times of bad profits or losses there was no need to make any provision. They must stand firm and resist that alternative suggestion. Mr. Woolley mentioned the question of buildings and advocated that more depreciation ought to be provided, and in that he thoroughly agreed. (Applause).

Mr. Fedde's Reply.

Mr. A. S. FEDDE (U.S.A.) said he was very appreciative of the fact that the committee had assigned two persons to present papers on the subject, and when he saw Mr. Howitt diligently working his pencil and taking copious notes he felt he could sit back at ease. As Mr. Howitt had reviewed the entire subject he did not propose to do so. If he did he might make himself open to the formula which was given to a certain Minister when he asked what he could do to keep his audience awake, and he was told he should get someone to sit behind him and stick a pin in him. (Laughter.) By a curious coincidence he was in the chair at the last session of the Amsterdam Congress in 1926, and this time apparently he was the last formal speaker on the programme. As the last speaker he felt it a great pleasure and privilege to be able to conclude by congratulating the committee on the marvellous way the Congress had been conducted, and on the generous hospitality they had extended to the delegates, and by saying that if there ever was another International Congress in London they would all come. (Applause.)

COMPANY LAW AMENDMENT.

CHAMBERS OF COMMERCE RECOMMENDATIONS.

Below is the report of the Special Committee appointed by the Association of British Chambers of Commerce to consider what amendments are necessary in the existing Company Law.

The Committee consisted of:

Members of the Finance and Taxation Committee: Chairman, Mr. H. Lakin-Smith, F.C.A. (Vice-President), the Office Bearers of the Association, and Mr. J. Arthur Aiton, C.B.E. (Derby), Colonel J. H. Collett, C.M.G. (Gloucester), Sir Stephen Demetriadi (London), Lieut.-Colonel B. Palin Dobson (Bolton), Mr. F. G. Higgins (Luton), Mr. W. Mordey (Newport, Mon.), Mr. Henry Morgan, F.S.A.A. (London), Mr. R. C. Rogers (Birmingham), Sir Felix Schuster, Bart. (British Bankers' Association), Mr. Fred Smith, C.B.E. (Spen Valley), Mr. W. J. Talbot (Walsall).

Additional Members: Mr. Harold Anderson (Batley and Birstall), Mr. F. H. Pepper (Birmingham), Mr. Clare Smith, F.C.A. (Bristol), Mr. J. E. Townshend Ducker (Derby), Mr. Vincent Thompson (Exeter), Mr. D. G. Price, F.S.A.A. (Gloucester), Mr. E. Sudworth, F.C.A. (Huddersfield), Mr. W. F. Harris, F.C.A. (Hull), Mr. H. D. Leather, F.C.A. (Leeds), Mr. L. V. Wykes, F.C.A. (Leicester), Mr. R. C. de Zouche, F.C.A. (Liverpool), Mr. E. G. Roscoe (London), Mr. W. H. Stentiford, F.C.I.S. (London), Mr. R. Wilson Bartlett, F.S.A.A. (Newport, Mon.), Mr. Fred. Kilby, F.S.A.A. (Northampton), Mr. Chas. J. Pain, F.C.A. (Nottingham), Major R. Bullin (Portsmouth), Mr. F. Wilcock, F.C.A. (Preston), Mr. A. Duncan Barber, F.C.A. (Sheffield), Mr. Frank C. Bevan (Swansea), Mr. A. E. Penny (Willesden), Capt. J. Griffyth Fairfax (Norwich), Mr. A. N. Winder (Associated Stock Exchanges, Manchester), Mr. R. E. Satterthwaite (London Stock Exchange), Mr. Chas. Latham (Shareholders' Protection Association), Mr. R. P. Wilkinson (London Stock Exchange).

At the annual meeting of the Association in 1932 a resolution was unanimously adopted urging the Government to re-examine the Report of the Special Government Committee on the Companies Acts, and the representations of the Association and other representative bodies thereon, with a view to the amendment of the Act of 1929 in conformity with present day experience and requirements. The Executive Council referred this resolution to the Finance and Taxation Committee which recommended the re-appointment of the Association's Committee on Company Law to deal with the matter. The following report is now submitted with the unanimous agreement of the Committee.

REPORT.

A circular letter was sent to all Chambers inviting their views and suggestions as to what amendments were necessary in the existing Company Law. The Special Committee gave consideration to the replies received from Chambers, and it was decided to appoint four Sub-Committees as follows:

Winding-up.—Mr. A. Duncan Barber, F.C.A. (*Chairman*).

Accounts and Audits.—Mr. Henry Morgan, F.S.A.A. (*Chairman*).

Procedure, Meetings and Proxies.—Sir John Sandeman Allen, M.P. (*Chairman*).

Prospectuses and Underwriting.—Mr. F. Wilcock, F.C.A. (*Chairman*).

These Sub-Committees met for the consideration of various suggestions. They presented reports to the Main Committee which finally agreed to submit the following recommendations for the approval of the Executive Council of the Association.

Companies Act, 1929.

SECTION 39.

Shares—No Distinctive Numbers.

The Committee recommend that *fully-paid* shares should not, within the limits prescribed by the Bill drawn up in agreement with the London Stock Exchange, be required to have a distinctive number.

Sale on Stock Exchange of Shares before Allotment.

Note: The Committee agreed that in many cases it was undesirable that shares should be sold on the Stock Exchange before allotment, but it was considered that this was a question for the Stock Exchanges rather than for new legislation.

Underwriting, &c.

The Committee recommend that Directors should be required to take all reasonable steps to ensure that their underwriters are good for their commitments, and that allotment letters should not be posted until cheques received with application forms and from underwriters have been cleared.

The second paragraph of Section 39 (1) reads as follows:

> " For the purposes of this sub-section, a sum shall be deemed to have been paid to and received by the company if a cheque for that sum has been received in good faith by the company and the directors of the company have no reason for suspecting that the cheque will not be paid."

The Committee recommend that the second paragraph of Section 39 (1) should be amended to read as follows:

> " For the purposes of this sub-section a sum shall not be deemed to have been paid to and received by the company, until the cheque or cheques have been cleared."

Prospectuses.

Sub-section 6 of Section 39 reads as follows:

> " This section, except sub-section (3) thereof, shall not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription."

The Committee recommend that sub-section 6 of Section 39 should be omitted, because it is inconsistent with the provisions of Section 35.

SECTION 61.

Shareholders—rights of special classes of Shares, cancelling of resolution of variation of rights.

Section 61 (2). The Committee recommend that the period within which the application must be made to the Court should be extended from seven to 21 days.

SECTION 73.

Directors as Trustees for Debenture Holders of the same Company.

The Committee recommend that no director should also be a Trustee for Debenture Holders of the same Company; but that this should not apply to Private Companies.

SECTION 93.

Registration Office—Address.

The Committee recommend that it should be made compulsory to state the address of the registered office of the company on all stationery and on share and debenture certificates at the time of issue.

SECTION 108.

Annual Return.

Section 108 (1) reads as follows:

> " Every company having a share capital shall once at least in every year make a return containing a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return or, in the case of the first return, of the incorporation of the company."

The Committee recommend that after " year " in line 2 there should be inserted: " except the year in which the company is incorporated."

SECTION 112.

Annual General Meeting and Publication of Accounts.

Section 112 (1) reads as follows:

> " A general meeting of every company shall be held once at the least in every calendar year, and not more than fifteen months after the holding of the last preceding general meeting."

The Committee recommend that after " calendar year " in line 2 there should be inserted " after the calendar year in which the company is incorporated."

Note: The Committee were of opinion that the provisions of Section 112 *re* holding of Annual General Meeting should be more strictly enforced but no alteration was required in the law.

SECTION 117.

Section 117 (2) reads as follows:

> " (2) A resolution shall be a special resolution when it has been passed by such a majority as is required for the passing of an extraordinary resolution and at a general meeting of which not less than twenty-one days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given:
>
> " Provided that, if all the members entitled to attend and vote at any such meeting so agree, a resolution may be proposed and passed as a special resolution at a meeting of which less that twenty-one days' notice has been given."

The Committee recommend that after " agree " in line 8 there should be inserted " in writing."

SECTION 123.

Profit and Loss Account and Balance Sheet.

The Committee recommend that the Profit and Loss Account should show the profit or loss for the period covered, and that there should be stated under separate headings:—

(*a*) The remuneration paid to Directors required to be disclosed under this Act;

(*b*) Total income from all Investments held by the Company other than those in subsidiary companies;

(*c*) Any material credits which are abnormal or extraneous in their nature to the ordinary transactions of the Company, as well as any reserve from a previous period.

Note: The Committee were of opinion that the provisions of Section 123 *re* publication of Accounts should be more strictly enforced but no alteration was required in the law.

SECTION 124.

Contents of Balance Sheet.

Section 124 (1) reads as follows:

> " (1) Every balance sheet of a company shall contain a summary of the authorised share capital

and of the issued share capital of the company, its liabilities and its assets, together with such particulars as are necessary to disclose the general nature of the liabilities and the assets of the company, and to distinguish between the amounts respectively of the fixed assets and of the floating assets, and shall state how the values of the fixed assets have been arrived at."

The Committee recommend that after "assets" in line 8 there should be added "and investments." It was considered that free reserves should be disclosed on the face of the balance sheet and not included with "sundry creditors." The need for such disclosures should not extend to provisions made for estimated losses or expenses not definitely ascertainable at the date of making up the Company's accounts, but to which losses or expenses it is sound and proper to have regard in arriving at the profit or loss for the year or other period.

Section 124 (3) reads as follows:

"(3) Where any liability of the company is secured otherwise than by operation of law on any assets of the company, the balance sheet shall include a statement that that liability is so secured, but it shall not be necessary to specify in the balance sheet the assets on which the liability is secured."

The Committee recommend that secured liabilities should be shown separately from unsecured liabilities, and it was agreed to recommend that Section 124 (3) should be amended to read as follows:

"(3) Where any liability of the Company is secured otherwise than by operation of law on any asset of the company, the balance sheet shall *state such liability separately from other liabilities and shall* include a statement that that liability is so secured, but it shall not be necessary to specify in the balance sheet the *asset or* assets on which the liability is secured.

SECTION 126.

Subsidiary Companies.

The Committee decided to recommend as follows:

Insert new sub-section (2) to Section 126:

"(2) Where a holding company has investments in one or more subsidiary or sub-subsidiary companies, the statement to be annexed to the balance sheet referred to in Section 126, should include the total amount of the ascertained profits or losses of such subsidiary and/or sub-subsidiary companies appertaining to the interest of the holding company in such subsidiary and/or sub-subsidiary companies, in so far as such profits or losses have not been brought into account in the Profit and Loss Account of the holding company."

The Committee recommend that the regulations applying to subsidiary companies should be extended to sub-subsidiary companies and that where reference is made in the Act to "subsidiary companies" this expression should be interpreted to include "sub-subsidiary companies."

Note: The Committee were of opinion that the question of the treatment of subsidiary and sub-subsidiary companies in the Accounts of the Holding Company required very careful consideration. Whilst in many cases the principle of consolidated Balance Sheets and Profit and Loss Accounts has been adopted with much advantage, there must obviously be very many cases where such a course would present considerable difficulties and would not necessarily cure defects in present practice. It would, therefore, not be advantageous or proper to impose such an obligation in the case of all Holding Companies.

SECTION 127.

Subsidiary Companies.

The Committee recommend that the definition of a subsidiary company should be extended to cover any company controlled either directly or indirectly by the parent company, through the medium of any subsidiary or sub-subsidiary company.

The Committee also recommend that subsidiary companies should not purchase shares of the holding or parent company which controls them.

SECTION 128.

Loans to and Remuneration of Directors.

Section 128 (1) (*a*). The Committee recommend that the total amount advanced to all directors and other officers should be shown upon the accounts but not necessarily the amount due from each individual.

The Committee recommend that seven days' notice must be given to shareholders of any proposal to increase the remuneration of Directors or to increase the scale of remuneration, but that the amount of the proposed increase need not be stated in the notice. This shall not apply to Private Companies.

SECTION 130.

Right to Receive copies of Balance Sheets and Auditors' Report.

Section 130 (1) reads as follows:

"(1) In the case of a company not being a private company—(*a*) a copy of every balance sheet, including every document required by law to be annexed thereto, which is to be laid before the company in general meeting, together with a copy of the auditors' report shall, not less than seven days before the date of the meeting, be sent to all persons entitled to receive notices of general meetings of the company;

"(*b*) Any member of the company, whether he is or is not entitled to have sent to him copies of the company's balance sheets, and any holder of debentures of the company, shall be entitled to be furnished on demand without charge with a copy of the last balance sheet of the company, including every document required by law to be annexed thereto, together with a copy of the auditors' report on the balance sheet."

The Committee recommend that this section should be amended to provide that every member of a company shall be entitled to receive a copy of the balance sheet and profit and loss account or income and expenditure account as the case may be.

SECTION 132.

Appointment of new Auditors.

Section 132 (4) reads as follows:

"(4) Subject as hereinafter provided, the first auditors of the company may be appointed by the directors at any time before the first annual general meeting, and auditors so appointed shall hold office until that meeting: Provided that:

"(*a*) The company may at a general meeting of which notice has been served on the auditors in the same manner as on members of the company remove any such auditors and appoint in their place any other persons being persons who have been nominated for appointment by any member of the company and of whose nomination notice has been given to the members of the company not less than seven days before the date of the meeting."

The Committee recommend that auditors should receive notice and be entitled to attend any meeting convened under Section 132 (4) (*a*).

SECTION 134.

Auditors' Report, &c.

Section 134 (1) reads as follows:

"(1) The auditors shall make a report to the members on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state:"

The Committee recommend that there should be inserted in line 2 after "balance sheet" the words "and profit and loss account." The sub-section would then read as follows:

"134 (1) The auditors shall make a report to the members on the accounts examined by them, and on every balance sheet *and profit and loss account* laid before the company in general meeting during their tenure of office, and the report shall state:"

Section 134 (3) reads as follows:

"(3) The auditors of a company shall be entitled to attend any general meeting of the company at which any accounts which have been examined or reported on by them are to be laid before the company and to make any statement or explanation they desire with respect to the accounts."

The Committee recommend that after "shall" in line 1 there should be inserted "receive notice of and".

SECTION 140.

Restrictions on Appointment, &c., of Director.

The Committee recommend that the resignation of a director of a public company should be required to be gazetted.

SECTION 226.

Appointment of Liquidator.

The Committee recommend that notice in the *Gazette* under Section 226, should be extended to include a provision requiring the publication of the name and address of the liquidator appointed, whether appointed by the creditors or by the shareholders.

SECTION 230.

Directors—Declaration of Solvency in Members' Voluntary Liquidation.

The Committee recommend that in the case of a voluntary winding-up under Section 230, where there is a statutory declaration by the Directors to the effect that they have made a full inquiry into the affairs of the company, and that, having done so, they have formed the opinion that the company will be able to pay its debts in full within a period not exceeding twelve months from the commencement of the winding-up, the liquidator shall within two months of the commencement of the winding-up issue a statement of affairs to the creditors of the company and shall call a meeting and place the statement before them. The statutory declaration of the Directors shall show that their opinion is based on the realisable value of the assets in a winding-up. The statement of affairs shall show how the value of the assets has been arrived at, and if a majority in value of the creditors shall so resolve the liquidator shall apply to the Court for directions for the liquidation being continued as a creditors' winding-up. Should the liquidator fail to take the necessary action within fourteen days any one creditor may take action.

Any Director making a declaration of solvency without reasonable grounds shall be liable to a penalty of one hundred pounds.

SECTION 238.

Meetings of Creditors.

Section 238 (1) reads as follows:

"(1) The company shall cause a meeting of the creditors of the company to be summoned for the day, or the day next following the day, on which there is to be held the meeting at which the resolution for voluntary winding-up is to be proposed, and shall cause the notices of the said meeting of creditors to be sent by post to the creditors simultaneously with the sending of the notices of the said meeting of the company."

The Committee recommend that the following words be inserted at the end of sub-section (1): "Proxy forms shall be sent out with all notices convening meetings of creditors."

SECTIONS 238, 239, 240, 244 AND 245.

The Committee recommend that with regard to voting at a creditors' meeting under Sections 238, 239, 240, 244 and 245 it should be made clear as to the method of voting and whether a majority in value or in number of creditors is required and further that it might be well to follow the procedure in bankruptcy, which requires only a majority in value to carry any resolution.

SECTION 347.

Foreign Companies, Balance Sheets, Prospectuses, &c.

Section 347 (1) reads as follows:

"(1) Every company to which this part of this Act applies shall in every calendar year make out a balance sheet in such form, and containing such particulars and including such documents, as under the provisions of this Act it would, if it had been a company within the meaning of this Act, have been required to make out and lay before the company in general meeting, and deliver a copy of that balance sheet to the registrar for registration."

The Committee recommend that the following words should be added at the end of sub-section (1) of Section 347:

"And in such balance sheet shall distinguish between the liabilities in this country and liabilities abroad and also between the assets in this country and assets abroad, distinguishing also between assets charged to creditors in this country and assets charged to creditors abroad."

SECTION 370.

Service of Documents and Legal Proceedings.

Section 370 (1) reads as follows:

"(1) A document may be served on a company by leaving it or sending it by post to the registered office of the company."

The Committee recommend that sub-section (1) should be amended to read as follows:

"(1) A document may be served on a company by leaving it at or sending it by *registered* post to the registered office of the company."

TABLE A, ARTICLE 50.

Table A, Article 50 reads as follows:

"50. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by at least three members present in person or by proxy entitled to vote or by one member or two members so present and entitled, if that member or those two members together hold not less than 15 per cent. of the paid up capital of the company, and, unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried,

or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against that resolution."

The Committee recommend that in the event of a General Meeting where a poll is for any reason demanded, such poll should only be taken on demand of the Chairman or by a majority of the shareholders present in person and voting, in which case the poll must be taken at an adjourned meeting called after allowing time for the shareholders to attend or to receive and return a special proxy indicating the shareholders' views. (Thus following to a certain extent the procedure laid down in the case of compulsory liquidation.) This recommendation is not to apply to Private Companies.

Changes and Removals.

Messrs. Allnutt, Bradfield & Co., Incorporated Accountants, have removed their offices to 3 and 4, Clement's Inn, Strand, London, W.C.2.

The partnership heretofore subsisting between Mr. Godfrey Craven and Mr. T. C. Forster, Incorporated Accountants, under the style of Craven & Forster, at 42, Deansgate, Manchester, has been dissolved. Mr. T. C. Forster is continuing the business under his own name, at the same address.

Mr. Frank T. Goodliff, Incorporated Accountant, has removed his offices to 60A, Grand Parade, Brighton.

Messrs. Harper, Kent & Wheeler, Incorporated Accountants, announce a change of address to Old Bank Buildings, Bellstone, Shrewsbury.

Miss M. M. Homersham, Incorporated Accountant, has removed her offices to 41, George Street, Baker Street, London, W.1.

Mr. A. J. Johnson, Incorporated Accountant, practising under the style of C. Johnson & Son, at Southgate Street, Winchester, announces that he has taken into partnership Mr. Norman Gledhill, A.C.A., of Leeds. The name of the firm will be unchanged.

Owing to the death of Mr. H. M. B. Ker, the practice of Ker, Jones & Co., Incorporated Accountants, 7, Castle Street, Bridgwater, will in future be carried on by Mr. Arthur H. Jones, F.S.A.A. The firm name will remain as before.

Mr. L. E. Passingham, Incorporated Accountant, announces that he is now practising at Grafton Chambers, 120, Tottenham Court Road, London, W.1.

Messrs. Saxton, Shaw, Brown & Co., Incorporated Accountants, Barnsley, intimate that they have opened an office at Marygold House, Carfax, Oxford, where they are practising under the style of Saxton, Brown & Co.

Messrs. Alfred Southern & Co., Incorporated Accountants, have removed to Northern Assurance Buildings, Albert Square, Manchester, 2.

Messrs. Charles R. Whitnall & Son, Chartered Accountants, announce a change of address to Caledonian Buildings, 14, Tithebarn Street, Liverpool, 2.

Mr. Alan Wood, Incorporated Accountant, has commenced to practise at 83, Bridge Street, Manchester, 3.

Reviews.

The Rent Acts, 1920 to 1933. *By H. Heathcote-Williams, M.A., Barrister-at-Law. London: The Property Owners' Protection Association, Limited, Spencer House, South Place, Finsbury, E.C.2.* (286 *pp. Price* 7*s.* 6*d. net.*)

As is well known, the Rent and Mortgage Interest Restriction Acts with all the amendments thereon are very difficult to understand. They have been described by Judges as patchwork legislation not framed with any scientific accuracy of language and presenting great difficulties of interpretation, and again as a labyrinth and jungle of sections and schedules. Readers will therefore be glad to have a book which endeavours to state the law as it now stands without attempting to contrast the position before and after the passing of the 1933 Act. To present the present law in an intelligible form and in non-legal language is what the author of this book has attempted to do. Commencing with a brief statement of the effect of the provisions of the 1933 Act, section by section, Mr. Heathcote-Williams deals with the duration and application of the principal Acts, the restrictions on increase of rent and right to possession, statutory tenancies, de-control, registration of certain class "C" dwelling houses, provisions as to rent books, and the position with regard to mortgages. The appendix contains the text of the various Rent Restriction Acts and the rules made thereunder, and concludes with a very complete index. Anyone desiring to acquire a knowledge of this very difficult subject and the practical working of the Acts will find in this book a very useful guide.

Executorship Law and Accounts. *By Ranking, Spicer & Pegler. 11th Edition. Edited by H. A. R. J. Wilson, F.C.A., F.S.A.A. London: H. F. L. (Publishers), Limited, 19, Fenchurch Street, E.C.3.* (384 *pp. Price* 15*s. net.*)

This well known work takes the same form as hitherto, but the whole text has been revised and brought up to date, whilst certain recent cases have necessitated the re-casting of many portions of the book, in particular with regard to the order of payment of debts in consequence of the decision of the House of Lords in the case of *re Cockell.* The book covers the whole field of administration of Trust Estates, and supplies examples of the form in which the accounts should be kept. In the appendix are scales of estate duty showing how it has been modified from time to time, together with a glossary of terms used in connection with executorship matters.

Slater's Mercantile Law. *8th Edition. By R. W. Holland, LL.D, Barrister-at-Law, and R. H. Code Holland, Barrister-at-Law. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (628 *pp. Price* 7*s.* 6*d. net.*)

In this edition a new feature has been added, namely, a summary of leading cases dealing with various aspects of Mercantile Law. This summary gives a brief statement of the circumstances of each case, together with a short extract from the judgment of the Court indicating the main grounds of the decision. The subjects dealt with include the law relating to contracts, securities, bills of sale, lien, pawns and pledges, &c.; also bankruptcy law and practice, bills of exchange and a number of other miscellaneous matters.

Income Tax and Sur-tax, 1933-34. *With Irish Free State Supplement. By C. H. Tolley. London: Waterlow & Sons, Limited, London Wall and Birchin Lane, E.C.3.* (*Price with Free State Supplement* 3*s.* 6*d., post free. Without the Supplement,* 3*s.*)

This comprehensive chart takes the usual form and condenses a large amount of useful information into a very

small space. An important feature is that in every case a reference is given to the source from which the information is derived. A new section deals with the taxation of mutual and co-operative societies, setting forth the effect of the provisions of the Finance Act, 1933.

Taxation of Business Profits of Professions and Employments. *3rd Edition. By C. H. Tolley. London: Waterlow & Sons, Limited, London Wall and Birchin Lane, E.C.3.* (*94 pp. Price 2s. 6d. net.*)

In this book the author deals fully with the incidence of Income Tax in relation to businesses and employments, numerous examples being given showing how the computations are worked out and the forms filled up. Attention is also devoted to the treatment of losses, the waiver of salaries or fees, and questions relating to depreciation and obsolescence.

Company Law. *By H. Goitein, LL.D., Barrister-at-Law. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (*328 pp. Price 7s. 6d. net.*)

There are many books available on the subject of Company Law, but for the purpose of the student Mr. Goitein has provided in simple form an explanation of the management of the affairs of a company in the various stages of its existence from formation to winding-up, including the steps to be taken for commencing business, the procedure at company meetings, the borrowing powers of the company, alterations of the Articles, re-construction and liquidation. The explanations are clear and concise and as far as possible free from legal technicalities.

The General Principles of Factory Costing. *By Percy H. Walker, F.S.A.A. London: Gee & Co. (Publishers) Limited, 6, Kirby Street, E.C.1, and 41, Moorgate, E.C.2.* (*60 pp. Price 5s. net.*)

In this little book the author has endeavoured to set forth briefly the underlying principles of costing systems, and to show how they are applied in practice. The explanations are clear and brief, and specimens of forms used in connection with costing records are supplied. In discussing the subject of labour, information is given as to the different methods of recording time work and piecework, together with brief notes as to various bonus systems which are in use. After dealing with the general principles applicable to all costing systems under the heads of labour, material, indirect charges and interest on capital, a brief outline is given of the system of multiple costs adopted by the Master Printers' Association. As an introduction to the subject of cost accounts the book is well worthy of perusal.

Handbook of Local Government Law (Outside London). *4th Edition. By C. J. F. Atkinson, LL.B., Solicitor. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (*290 pp. Price 7s. 6d. net.*)

For a description in plain English of the gist of the laws of Local Government, readers will find what they require in this publication. The matter is arranged in alphabetical order under convenient headings, and it is therefore easy to refer to any particular point. The contents include the general features of such matters as elections, rates, valuation and highways, together with information as to Parish and Council Meetings, District and Borough Councils, County and Education Authorities. In fact there are few matters connected with Local Government outside London which are not touched upon.

Business Man's Guide. *10th Edition. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (*540 pp. Price 6s. net.*)

A mass of useful information is to be found in this book. It is compiled in the form of a dictionary or miniature encyclopædia, dealing with commercial matters, and includes explanations of commercial terms and the transactions with which they are associated. In most cases the information is brief, but on the more important matters extended space is employed. It is in fact a compendium of commercial information. A useful feature is that the French, German, Spanish and Italian equivalents of English commercial terms and phrases are given in every case.

Private Companies—their Management and Statutory Obligations. *2nd Edition. By H. W. Jordan and S. Borrie. London: Jordan & Sons, Limited, 116, Chancery Lane, W.C.2.* (*206 pp. Price 5s. net.*)

There are now so many private companies in existence that any book which clarifies the law on the subject and presents it in a readable form is likely to meet with a ready demand. It is with the object of supplying such a requirement that this book has been produced, and the author has succeeded in presenting his readers with a clear and comprehensive view of the law bearing upon the formation and management of the private company. The whole range of company work is brought under review, including matters relating to meetings of shareholders, duties and liabilities of directors, increase and reduction of capital, issue of bonus shares, &c. At the end of the book is given a list of the documents required to be lodged with the Registrar of Joint Stock Companies during the period of trading and also in voluntary liquidation, giving information as to when the documents have to be lodged, whom they are to be signed by, and the penalty for default.

Incorporated Accountants Students Society of London and District.

Prize Essay Competition.

An Essay Competition has been arranged by this Society on "Test Methods in Auditing," competitors being asked to deal with the following points:—

(*a*) The considerations which determine the limits of selective or test methods in the Examination of Accounts, with special reference to additions, postings, vouching and other items not checked or verified exhaustively;

(*b*) The extent to which such test examination can be delegated to Junior Assistants;

(*c*) The methods to be employed in instructing juniors concerning the principles and considerations involved;

(*d*) The control by Principals and Seniors of this work.

A First Prize of £7 and a Second Prize of £3 will be awarded.

The competition is limited to those who have not passed the Final examination of the Parent Society.

Income Tax and Wasting Assets.*

A LECTURE delivered before the Incorporated Accountants' Society of Manchester and District by

Mr. JAMES J. TODD,
Inspector of Taxes.

Mr. TODD said: Accountants must often have difficulty in explaining to clients the principles under which wasting assets are dealt with for taxation purposes. A practitioner may have amongst his clients:—

(*a*) A shopkeeper who takes shops on long leases for which he pays a premium,

(*b*) A brickmaker who buys land holding clay, which he proceeds to use up as quickly as he can sell it in the form of bricks.

(*c*) A colliery owner who buys land for the purpose of mining the coal it contains.

(*d*) A motor car manufacturer who regularly buys patents for inventions which improve his cars.

(*e*) A cotton manufacturer owning a mill containing boilers, engines and looms.

These clients wish to be satisfied that their profits have been computed for taxation purposes on just and equitable lines. It is desirable therefore that accountants should familiarise themselves with the problem of wasting assets and with the state of the law in relation thereto. Otherwise their explanations may arouse in the minds of clients a contempt for our fiscal law and a resentment against those who administer it which are quite without justification.

It is necessary to remember that Income Tax is a tax on income. Income has never been defined successfully, but for our purpose it is enough to bear in mind the distinction between income and capital. Gains of capital are not liable to taxation. Losses of capital are similarly excluded from computations of income. This is the starting point of the Income Tax scheme and, although the harsher applications of the principle have been modified by successive concessions, the main outlook of the legislators of 1842 must still be borne in mind by those who seek for a consistent idea in the Income Tax of to-day.

The distinction between capital and income has been made by the simile of the tree and the fruit; or again capital has been depicted as a reservoir supplied from springs, income as the outlet stream measured by its flow during a period of time. But for the purpose of our subject to-night the best distinction is that of the Lord President of the Scottish Court of Session in 1910. "Capital expenditure is a thing that is going to be spent once and for all; income expenditure is a thing that is going to recur every year."

This broad distinction is not, however, quite so easy to maintain in practice as might be thought by those coming fresh to the problem. The initial outlay in fitting yourself to carry on business is capital, and you cannot charge, in estimating profits, the cost of the land, buildings, machinery, patents, goodwill or any of the instruments by the use of which you obtain the product which it is your business to sell. But these assets, or some of them, need regular expenditure to keep them in a profit-earning condition, and that expenditure, being of a regular, recurring nature, is admissible. Thus you may charge the cost of fresh slates on the roof, the re-paving of the yard, whitewashing and painting the walls or glazing the windows of your building. Similarly you may charge all the regular cost of repairing your machinery, including the replacement of broken parts. But it soon becomes evident that one man's capital assets consisting of small things, if kept in a proper working state year by year, suffer no depreciation in value, while another man's capital assets consisting of large things become gradually of less value, however carefully their needs in the way of repairs are attended to. A contractor spends £10,000 in picks, shovels and wheelbarrows. A shipowner spends £10,000 on a ship. Each does what is necessary year by year in the way of upkeep. In twenty years the contractor still has his £10,000 worth of picks, shovels and wheelbarrows, but the shipowner's ship has to be sold for £500 to the breakers-up. In 1842—the year to which we still look for our broad principles—the shipowner was taxed year by year just like the contractor on the balance of his profits, no allowance being made to him for the steady exhaustion of his capital.

In both these cases the capital assets consisted of material things and the difference between them was their length of life. The cost of replacing things with a short life was admissible; the cost of replacing things with a long life was not. To reduce this very evident inequity a further restriction was put in the 1842 Act limiting the sum which could be charged for repairs and renewals in any one year by reference to an average of three years. The effect of this would be curious. If economical years were followed by an expensive one our contractor would not be allowed to charge the cost of some of his new tools and barrows; so long as he spent a similar amount each year he would have no trouble. Whether this rule ever operated in practice seems doubtful. The general position of inequity between one taxpayer and another was certainly not improved by it. This provision was repealed in 1926 and has therefore only a historical interest.

It gradually became impossible to maintain this distinction between one form of equipment and another, and the practice grew up of making an allowance to the owner of machinery with a long life representing the annual amount put aside to a fund for replacing the whole at some future date, this allowance being in addition to the normal cost of repairs, &c., incurred year by year. In 1878 the practice was legalised and the position stabilised for forty years. That position was that the cost of replacing, or the cost of building up a fund to replace, at some future time, certain material assets, was a proper deduction in arriving at profits. These material assets were tools, implements, plant and machinery, which included ships. Nothing was done with regard to certain other material assets, *e.g.*, land, minerals or buildings, and nothing with regard to immaterial assets such as leases, patents or goodwill. Moreover, even the machinery concession was severely limited. It was to meet the diminished value by reason of wear and tear—not to meet the cost of replacement through any other cause. When I say that no allowance was made for the depreciation of buildings, I must be understood to refer to the rules of computing profits under Schedule D. The allowance for repairs from the gross rental, which was granted in 1894, was indeed intended to meet depreciation, but it was of no value to the owner-occupier of industrial buildings since it increased his tax under Schedule D by the same amount as it reduced it under Schedule A. He might gain a little by the transfer from the unearned to the earned category, but that was accidental.

In 1918 Parliament took another step, or rather two other steps, to meet the complaints of inequality of treatment. The first was to legalise an allowance, over

* *The views expressed in this paper are the Lecturer's own. They have no official authority.*

and above that for wear and tear, to meet the cost of replacing machinery which had become obsolete by up-to-date machinery. (This allowance had been made in practice for a number of years.) The second was to meet the claims of owner-occupiers of mills in which machinery was used, and enabled them to deduct not only the cost of repairs but one-sixth of the gross rental value in addition. Buildings containing machinery were thus definitely ranged with short-life assets, though the method of making the allowance had no direct relation to the cost.

Administratively, also, the year 1918 is important by reason of the issue from the Stationery Office of the White Paper. This announced in clear language that the taxpayer had the option of electing in which way the cost of replacing plant and machinery was to be charged. Over and above normal repairs he was entitled either to an annual allowance for depreciation by wear and tear plus an occasional allowance for obsolescence or to the actual cost of replacement as and when it occurred. (This paper went even further and conceded that the cost of replacement was the cost of the new article, not that of the old one. In a time of rising prices this was important. To-day, perhaps, we may leave that point alone as lacking immediate interest.)

It should be clearly understood that this announcement is confined to plant and machinery. There has been no departure from the original attitude as regards buildings. Repairs of buildings must be repairs to an existing fabric and no charge for replacing buildings is admissible. Even the replacement of a chimney has been held to be capital expenditure.

We may summarise the present state of the law as follows :—

The cost of replacing certain material wasting assets which are part of the capital equipment of a trade is a permissible charge against the taxable profits. These assets are :—

(*a*) Implements and tools with a life so short that no special fund for replacement is, in practice, created.

(*b*) Plant and machinery (including ships) with a life ranging from, say, five to fifty years, and usually provided for by a fund made up of annual writings-off.

(*c*) Mill buildings occupied by their owners. This last allowance has, however, no direct relation to the cost and depends solely on the letting value.

On the other hand no allowance can be made for the diminishing value of the material asset, land or the minerals in it. Equally no allowance can be made for the diminishing value of such immaterial assets as leases or patents, or for goodwill, all of which in practice are often written down year by year in the trader's books.

I will now pause to reiterate what I said at the beginning, that accountants should familiarise themselves not only with the state of the law but with the nature of the problem. By setting one instance against another it is easy to produce a feeling of grievance. One client buys leases, another client buys machinery. Each of these assets suffers a regular diminution in value which has to be provided for. How can the law be justified which allows for the one and refuses to allow for the other? "If," says the Royal Commission on Income Tax, "in assessing an income we are to take into consideration, in every individual instance, the wastage of the source of the income, then it will be impossible for us to ignore the human element in income production. If the proprietor of a mine is to be granted an allowance sufficient to enable him to replace his capital when the mine is exhausted, it would be inequitable to refuse an analogous allowance in respect of the initial capital invested in the education and training of a lawyer or surgeon or workman, whose earning power is possibly of shorter duration than the life of the mine." "We are of opinion," the report proceeds, "that the income tax should have regard to the actual income enjoyed by any individual during the income tax year, rather than to an amount deduced from that income by a mathematical computation that must rest on very uncertain and variable data. In other words, we consider that for taxation purposes the conception of income hitherto adopted by the Income Tax Acts should be retained, subject only to the exceptions which we set out below."

The recommendation then follows that allowances should be made for the wasting of material assets with a life of under 35 years. Income from assets with a longer life is ordinarily regarded as permanent. The time limit is arbitrary but it corresponds to a generation.

But from these material assets the report excludes natural resources such as minerals. These resources may have been *acquired* but they have not been *created* by the expenditure of capital. The knowledge that the wasting value of their proprietorship is not a deduction from taxable profits is clearly in the mind of the purchaser when he acquires them. It was strongly represented to the Commission that any allowance would affect the future price of mineral-bearing land and would, in effect, be an allowance not to the taxpayer who acquires and works the minerals but to the owner of the land which contains them. There is no ground, equitable or social, for adding to the value of the property of those who are distinguished from their fellows merely by being more fortunate. The minerals are the gift of Nature. She will not be discouraged from providing more, or from making them accessible, by any proceedings on the part of man.

If these considerations are true of the actual proprietorship of such material assets as minerals they are equally true of the temporary use of them conferred by a lease. The only effect of an allowance for the diminishing value of mineral leases would be to put up their price. Similarly leases of land and buildings must be regarded as covered by the same argument. The purchaser of a 14-year lease of a shop must be held capable of calculating the capital sum representing all that he will pay in income tax on the sinking fund required for amortisation, and no responsible witness before the Royal Commission disputed the view that he did, in fact, do so. If an allowance for the depreciation of a lease were made it would, in the long run, be to the lessor and not the lessee. Your client is, in all probability, the lessee. We need not discuss to-night the case of the lessor, but it may be said that no claim has been put forward that lessors, as a class, are overtaxed in comparison with other taxpayers.

At this point we may consider the case of leases taken out by shopkeepers. It has to be borne in mind that the cost of these is frequently associated with other expenditure of a capital nature not admissible in computing the yearly profit. I refer to such things as shop fronts, partitions and show windows. It was recommended by the Royal Commission that the writing off of this kind of outlay should be permitted. Although no change has taken place in the law in the direction recommended, and although the old rule as regards initial expenditure is still enforced, any shopkeeper who *replaces* a shop front, &c., is allowed to charge against the profits the cost of replacement in so far as it does not constitute an improvement.

The position with regard to such immaterial assets as patents, trade marks, and copyrights, is not quite so clear.

It occurs to the mind at once that though these are, like leases, payments to another person for something which already exists, there is, in practice, more difference than resemblance. No one can say that entering into leases is part of the shopkeeper's trade. His trade is to buy and sell goods, and the leasing of premises is, at bottom, an initiation, not a carrying on, of his trade, though this distinction becomes less evident in the case of multiple shops of the frozen meat kind. But the trade of the motor manufacturer whom we mentioned at the beginning is actually carried on by acquiring improvements as fast as they are invented, and in that trade, at least, it is difficult to regard anything as permanent. The law at present makes no allowances for these facts, but the Royal Commission was in favour of some concession in the matter of patents. Goodwill they regarded as outside the range. While it is often bought and paid for it does not necessarily decline in value ; on the contrary it may rise. Hardships there may be in certain cases, but it is not easy to frame any general provision which would meet them without creating others equally great.

Before leaving this part of the subject we have to mention another feature of the mining industry which has not yet received legislative attention. The commencement of mining involves, not only the purchase or leasing of land or mineral rights, but very heavy outlay—in the case of coal—for pit sinking. The present law, it will be remembered, allows for the depreciation of the plant and machinery only. What about the shaft itself ? Where the original owner exploits the minerals there is usually, in addition, the preliminary cost of boring. Even if Parliament had carried out the full recommendations of the Royal Commission by granting allowances for all wasting material assets with a life under 35 years, one can see very great difficulties in applying it. No one knows beforehand what the life of a mine may be. Moreover, reading between the lines of the evidence and of the report itself it would seem that the cost of pit sinking and the cost of the minerals themselves would be present in the mind of a purchaser as one total sum, not as two. If it is a valid argument that in offering a price for the minerals he takes into account that he cannot write it off for income tax. is it not equally true of the cost of pit sinking ?

This question also arises in connection with mines abroad owned by English taxpayers. If we regard the tax on the annual depreciation of the minerals as falling on the original owner, by reason of the diminished price he receives, then, in refusing this allowance to the English taxpayer, we are taxing the foreign owner. Alternatively, it may be said that we are handicapping the enterprise of English mining entrepreneurs since they are thus compelled to offer a smaller price for a mining site in, say, Mexico, than will be offered by a rival American or German firm unhampered by the fiscal burden. The subject is exceedingly obscure by reason of the varied conditions and the uncertainty of mining enterprise and perhaps it is not surprising that this part of the Royal Commission's recommendations has been allowed to lie unattended to. No allowance, then, is permissible under the present law to an English mining company in respect of the writing down either of its minerals abroad, its leases or its shafts. The same is true of dock and harbour companies in respect of their material assets other than plant and machinery.

In speaking a few moments ago of the allowances for the depreciation of mill buildings, I said it had no direct relation to the cost. In 1918, when this change in the law took place, the conditions were unstable and an experimental provision to satisfy immediate clamour was perhaps the only course open to the Government of the day. It is, however, unfortunate that fourteen years later we are still without any reasonable system of allowing for this class of wasting assets. The age of a building, as everyone knows, has little effect on its letting value. So long as an old building is suitable it will command the same rent as a new one. What possible justification can there be for an equal allowance for depreciation in a building just erected for £10,000 and a building a hundred or more years old bought for £1,000 ? Yet this is what may happen under the present law. Industry has, of course, passed through so many crises since 1918 that Governments have had every excuse for forgetting Royal Commission reports, but it ought to be put on record that the system now in force of making the allowance on the basis of the rental value was rejected by the 1919 Commission and an allowance based on cost recommended. Since, however, most mills have a longer life than 35 years it follows that few mill-owners would be likely to obtain any relief from the Commission's proposals. Any change in the law would, therefore, be a withdrawal, not a granting, of a concession. Nevertheless, since every concession to any class of taxpayers is necessarily made at the expense of the remainder, it is to be hoped that this state of things will not be allowed to continue indefinitely.

A word is perhaps needed to explain how, in practice, the sharp line in the life of an asset could be drawn at 35 years without creating inequality in borderline cases. The method recommended by the Royal Commission is that of the sinking fund, that is, the allowance to be made should be the sinking fund payment necessary to amortise the capital cost of the asset over its agreed life. The expression " sinking fund payment " means that annual sum which, if set aside at interest for a term of years equal to the life of the asset, would produce an amount equal to its cost. We may note in passing that one great difficulty in the way of the establishment of uniform allowances on these lines at the present day is the uncertainty of the normal prudent rate of interest on which the sinking fund calculation would necessarily be based. Taking it, however, at 3½ per cent., we can adopt the Royal Commission's own example. An asset costs £10,000. Its agreed life is 20 years. £354 per annum at 3½ per cent. will accumulate to £10,000 in 20 years. Deduct £150 per annum at 3½ per cent. which will accumulate to £10,000 in 35 years. The difference, £204, between these two sums, is the annual allowance to be made. The allowance for an asset with a life of 34 years would, therefore, be negligible. It is obvious that depreciation allowances on these lines would require very careful centralised administration to secure uniformity. The life of certain classes of assets would have to be fixed by some national body and the Royal Commission did, in fact, recommend that this function should be carried out by the Board of Referees. Whether a particular machine or piece of plant fell within a particular class would, in turn, have to be decided by a national and not a local body. It is accordingly recommended that all depreciation allowances should be settled by the Board of Inland Revenue with an appeal to the Special Commissioners.

We have briefly surveyed the history of this subject and we have set out the stage it has reached at the present time. Is it possible to continue the lines of progress thus revealed and make any kind of prophecy as to future changes ? The recommendations of the Royal Commission, logical and well rounded as they may sound to the ear, were based on assumptions which perhaps would now be challenged, and may also have been influenced by anticipations which the last twelve years have falsified. In a period of such rapid change as that in which we live the

future of industry itself is very uncertain and there can be only corresponding uncertainty with regard to taxation. It can, however, be laid down that with income tax at five shillings in the pound fiscal policy in such matters as depreciation must, in the long run, have an important influence on the direction in which industry will develop. For example—if the Royal Commission's general principle of a maximum life of 35 years were to be established it would perhaps discourage the acquisition of material assets with a longer life. Steam engines, for instance, would be less profitable than forms of motive power with a life of less than 35 years. It might even lead, by degrees, to a change in industrial building similar to that which has taken place, though for different reasons, in the City of New York, where it is said that a building is scarcely finished before the architects begin planning a new one to take its place. Again it has to be remembered that the wasting of an asset has hitherto been regarded as something due to the effluxion of time, a more or less regular decline over a period of years. But we have lived through a period—we are in fact still living in it—in which the value of fixed capital assets might drop in a year or two to a third or a quarter of its former figure. Instances of this must be familiar to many of you. Are the sufferers from such catastrophic changes likely to acquiesce in the present state of the law which gives them so little relief? All that can safely be prophesied is that if the broad distinction between income and capital which we laid down at the commencement of this lecture is departed from, the income tax as we know it will disappear and in its place we shall have a tax which may or may not be equally productive of revenue, but which will certainly make life more adventurous both for accountants and officials.

District Societies of Incorporated Accountants.

LEICESTER.

On September 8th a luncheon was given jointly by the Leicester Society of Chartered Accountants and the Incorporated Accountants' District Society of Leicester to the Economic Section of the British Association. Mr. R. V. Rodwell, F.C.A., was in the chair and Mr. H. T. Millman, F.S.A.A., was vice-chairman. The guests included the Lord Mayor of Leicester, Councillor A. Hawkes, Professor J. H. Jones (President of the Economic Section), Professor J. G. Smith, Professor Arnold Plant, Professor Sargant Florence, Sir Arnold Wilson, Sir George Buchanan, Professor J. A. S. Watson, Sir Henry Fowler, Professor W. Annan, Dr. J. A. Bowie, Dr. K. G. Fenelon, Mr. R. F. Harrod, Mr. A. Radford, and Mr. P. Ford.

Mr. R. V. Rodwell, F.C.A., proposed the toast of "The British Association for the Advancement of Science," and Professor J. H. Jones replied. An address admirably suited to the occasion was given by Mr. Francis Williams, City Editor of the *Daily Herald*, on "Is Civilisation Economically Possible?" A vote of thanks was accorded to Mr. Williams on the motion of Mr. H. T. Millman, F.S.A.A.

Syllabus of Lectures, 1933-34.

(To be held at the Turkey Café, Granby Street, Leicester, at 6 p.m.)

1933.

Oct. 11th. "The Economics of Costing," by Mr. W. H. Stalker, A.S.A.A., F.C.W.A.

Oct. 25th. "The Preparation of Accounts from Incomplete Records," by Mr. K. A. Coles, M.A., F.C.A.

Nov. 1st. "Official Statistics and how to use them," by Mr. Colin Clark, M.A., University Lecturer in Statistics, Cambridge.

Nov. 8th. "The Land Laws of England," by Mr. Bertram B. Benas, B.A., LL.B.

Nov. 15th. "The Money Market as it was and as it is," by Mr. A. L. Boddington, F.S.S.

Dec. 6th. "Income Tax," by Mr. Victor Walton, F.C.A.

Dec. 13th. "Legacy and Succession Duty Accounts," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

1934.

Jan. 30th. "Fluctuations in Industry," by Mr. A. Radford, B.Sc. (Econ.).

Feb. 6th. "Death Duties," by Mr. E. Westby-Nunn, B.A., LL.B.

Feb. 21st. "Deeds of Arrangement," by Mr. S. Shaw, LL.B.

Mar. 14th. "Recent Legal Decisions in Company Law," by Mr. C. A. Sales, LL.B., F.S.A.A.

(To be held at Kinson's Café, St. Giles Street, Northampton, at 6 p.m.)

1933.

Oct. 31st. "Fluctuations in Industry," by Mr. A. Radford, B.Sc. (Econ.).

Dec. 12th. "Legacy and Succession Duty Accounts," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

1934.

Jan. 23rd. "Capital and Revenue Expenditure from an Income Tax point of view," by Mr. W. Walder, H.M. Inspector of Taxes.

Feb. 5th. "Death Duties," by Mr. E. Westby-Nunn, B.A., LL.B.

Feb. 20th. "Deeds of Arrangement," by Mr. S. Shaw, LL.B.

Mar. 13th. "Recent Legal Decisions in Company Law," by Mr. C. A. Sales, LL.B., F.S.A.A.

LIVERPOOL.

Syllabus of Lectures, 1933-34.

1933.

Oct. 4th. Students' Impromptu Speeches.

Oct. 19th. "Economic Policy during the next Fifty Years," by Professor J. H. Jones, M.A. (University of Leeds).

Oct. 26th. "Deeds of Arrangement Procedure," by Mr. Charles M. Dolby, F.S.A.A.; at Chester. 6.45 p.m.

Nov. 2nd. Joint Debate with Liverpool Chartered Accountants' Students' Association; at Chartered Accountants' Library, 13, Union Court, at 5.30 p.m.

Nov. 16th. "The Banker and the Accountant," by Mr. J. M. Furniss, General Manager, Martins Bank.

Nov. 23rd. Joint Discussion with Institute of Cost and Works Accountants (Liverpool Branch).

Nov. 30th. "The Accounts and Balance Sheets of Non-Trading Concerns," by Mr. W. A. Kieran, A.S.A.A., Lecturer in Accountancy, City of Liverpool School of Commerce; at Chester, 6.45 p.m.

Dec. 6th. "Receivers," by Mr. C. Allison Sales, LL.B., F.S.A.A.

Dec. 20th. "The Duties and Liabilities of Executors," by Mr. Bertram B. Benas, B.A., LL.B., Barrister-at-Law.

1934.

Jan. 11th. "Duties of Accountants in relation to Investigations," by Mr. W. H. Grainger, F.S.A.A.

Jan. 18th. "Sale of Goods," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law; at Chester, 6.45 p.m.

Jan. 23rd. Ten Minute Papers by Members. "Farm Accounts," by Mr. T. H. McDowell, A.S.A.A. "American Audit Methods," by Mr. Allan Birchenough, A.S.A.A.

Jan. 25th. "The Future of Industrial Organisation," by Professor G. C. Allen, M.Com., Ph.D. (University of Liverpool); at Southport.

Feb. 7th. Joint Debate with Liverpool Law Students' Association.

Feb. 16th. Annual Dinner, at the Adelphi Hotel (provisional date).

Feb. 22nd. "Bankruptcy," by Mr. James Allcorn, Official Receiver. (Joint Meeting with Chartered Institute of Secretaries, Liverpool Branch).

Mar. 1st. Discussion on "Executorship Accounts, including Apportionments." Opened by Mr. W. R. Booth, A.S.A.A.; at Chester, 6.45 p.m.

Mar. 8th. "Partnership Law," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.

Mar. 23rd. "The City Page," by Mr. J. C. Rea Price, City Editor, *News-Chronicle.*

Apl. 10th. Visit to Liverpool G.P.O. and Telephone Exchanges (at 2.30 p.m.).

Meetings are held at 6.15 p.m., unless otherwise indicated, as follows:—

Liverpool—Constitutional Club, India Building, Water Street.

Chester—Queen Hotel.

Southport—Victoria Hotel, Promenade.

All meetings are held in Liverpool unless otherwise stated.

By invitation of the City Treasurer (Mr. W. H. Legh-Smith, F.S.A.A.), the autumn session of the Liverpool Society opened on September 23rd, with a visit to the municipal offices. A large party of members were received by Mr. Legh-Smith, and witnessed a demonstration of accounting and tabulating machinery. An interesting address was given by Mr. J. H. Robinson, A.S.A.A., Assistant in the City Treasurer's Department.

Golf Competition.

A golf competition between Incorporated Accountants and Inspectors of Taxes took place at Childwell, on September 21st, the result of which was as follows:—Singles: Inspectors of Taxes, 7 points; Accountants, 5 points. Foursomes: Accountants, 2 points; Inspectors of Taxes, 4 points. The Inspectors of Taxes accordingly won by an aggregate of 11 points to 7.

MANCHESTER.

Syllabus of Lectures, 1933-34.

1933.

Oct. 7th. Mystery Trip.

Oct. 13th. Students' Meeting. Mock Shareholders' Meeting.

Oct. 24th. "Law Reform," by Mr. H. Burton, B.A., Barrister-at-Law.

Nov. 3rd. "Points of Law for the Company Secretary," by Miss E. Hesling, LL.B., Barrister-at-Law.

Nov. 17th. "The Economics of Costing," by Councillor W. H. Stalker, F.S.A.A., President of the Newcastle-upon-Tyne District Society.

Nov. 18th. Visit to new Stretford Town Hall.

Nov. 24th. Students' Meeting. Chairman: Mr. Jas. A. Hulme, F.S.A.A. "Adjustment of Profits for Taxation Purposes," by Mr. J. Wood, A.C.A.

Dec. 6th. 6.30 p.m., Joint Meeting with Manchester and District Branch of the Chartered Institute of Secretaries, in the Chartered Accountants' Hall, Spring Gardens. "The Work of the County Court," by His Honour Judge Leigh.

Dec. 9th. Dance of Members and Students, at the College of Technology.

Dec. 15th. Students' Meeting. "Revision of November Examination Papers," by Mr. William Pickles, B.Com., F.C.A., A.S.A.A.

1934.

Jan. 19th. Students' Meeting. "A Few Examination Hints in Bankruptcy Law and Practice," by Mr. E. Westby-Nunn, B.A., LL.B. *Chairman:* Mr. Wm. A. Nixon, F.S.A.A.

Jan. 26th. Students' Meeting. Debate. Joint Meeting with Institute of Cost and Works Accountants in the Chartered Accountants' Hall, Spring Gardens.

Feb. 2nd. "The Ideals of a Professional Man," by Mr. J. Lea Axon.

Feb. 9th. Students' Meeting. "Consolidated Balance Sheets," by Mr. A. Lord, A.S.A.A. *Chairman:* Mr. Joseph Turner, F.S.A.A.

Feb. 16th. "The Pension Problem in Industry and its Relation to Unemployment," by Mr. C. W. Lambert.

Feb. 23rd. Joint Meeting with the Manchester Centre of the Association of H.M. Inspectors of Taxes. Mock Income Tax Appeals.

Mar. 9th. "The Financial Side of the Gas Industry," by Mr. J. H. Sillitoe, F.C.I.S. Annual Dinner at the Midland Hotel.

Mar. 16th. Students' Meeting. "The Eternal Triangle," by Mr. William A. Nixon, F.S.A.A. *Chairman:* Mr. Halvor Piggott, F.S.A.A.

Mar. 23rd. Students' Meeting. Mock Creditors' Meeting.

The meetings will be held at 6.15 p.m., in the Manchester Estate Exchange, 46, Fountain Street, Manchester, unless otherwise stated.

NORTH LANCASHIRE.

(Burnley and District Students' Section.)

Syllabus of Lectures, 1933-34.

1933.

Oct. 5th. "Interest Calculations in connection with Hire Purchase Accounts," by Mr. W. Ashworth, F.S.A.A.

Oct. 27th. Annual Dinner of District Society; at Park Hotel, Preston.

Nov. 2nd. "Extracts from an Accountant's Note Book," by Mr. Percy Toothill, F.S.A.A. (Member of the Council).

Dec. 7th. "Electricity Undertakings — Finance and Accounts," by Mr. J. Campbell, F.S.A.A. (Borough Treasurer of Accrington).

1934.
Jan. 4th. Students' Lecturettes.
Feb. 8th. Joint Debate with District Society. *Subject:* "The Registration of Accountants"; at Preston.
Mar. 8th. Reading and Debating by selected candidates for Prize Essay. *Judging Committee:* Mr. J. W. Dean, A.S.A.A., Mr. P. F. Pierce, A.S.A.A., Mr. J. Whittaker, A.S.A.A.
April 5th. Annual Meeting and Supper.

The meetings will be held at the Mechanics' Institution, Burnley, at 7.30 p.m. Members have the privilege of introducing friends who are interested.

NORTH STAFFORDSHIRE.
Syllabus of Lectures, 1933-34.

1933.
Oct. 2nd. "Some Impressions of the International Accountants' Congress," by Mr. Thomas Keens, D.L., F.S.A.A. *Chairman:* Mr. R. W. Woodhead, F.S.A.A.
Oct. 13th. "Capitalisation of Profits and the Issue of Bonus Shares," by Mr. Percy H. Walker, F.S.A.A. *Chairman:* Mr. T. Thompson, F.S.A.A.
Nov. 13th. Mock Creditors' Meeting. Mr. M. P. Ferneyhough, F.S.A.A., as Trustee. *Chairman:* Mr. J. Paterson Brodie, F.S.A.A.
Nov. 24th. "Deeds of Arrangement," by Mr. C. M. Dolby, F.S.A.A. *Chairman:* Mr. Donald H. Bates, J.P., F.S.A.A.
Dec. 20th. "Trustee Act, 1925, and Administration of Estates Act, 1925," by Mr. L. H. Jones, Solicitor. *Chairman:* Mr. Andrew Brodie, F.S.A.A.

1934.
Jan. 12th. "Economics," by Mr. M. Clark, M.A., B.Com., Principal, City School of Commerce. *Chairman:* Mr. W. C. Coxon, F.S.A.A.
Feb. 9th. "Bills of Exchange," by Mr. H. E. Wilde, Fellow of Institute of Bankers. *Chairman:* Mr. F. E. Cheetham, A.S.A.A.
Mar. 8th. "Economics of Costing," by Mr. W. H. Stalker, F.S.A.A. (President, Newcastle-on-Tyne District Society). *Chairman:* Mr. R. M. Chapman, F.S.A.A.
Mar. 16th. Annual Dinner (this date is provisional).

The meetings will be held at the Town Hall, Hanley, on the dates stated at 6.30 p.m.

NOTTINGHAM, DERBY AND LINCOLN.
Syllabus of Lectures, 1933-34.

1933.
Oct. 13th. "The London Money Market," by Mr. A. S. Wade, City Editor of the London *Evening Standard*.
Oct. 25th. "Economics," by Mr. Arthur Radford, B.Sc., University College, Nottingham.
Nov. 3rd. "Recent Tax Decisions in the High Court," by Mr. C. G. Woodfield, late H.M. Inspector of Taxes.
Nov. 15th. "Deeds of Arrangement," by Mr. S. Shaw, LL.B. (Lond.), Barrister-at-Law.
Dec. 7th. "Bankruptcy," by Mr. C. Allison Sales, LL.B. (Lond.), F.S.A.A.

1934.
Jan. 16th. "Principles of Mercantile Law," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.
Jan. 24th. "Criticism of a Balance Sheet," by Mr. Walter W. Bigg, F.C.A., F.S.A.A.
Feb. 22nd. "Executorship Law and Accounts," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.
Mar. 7th. "Statistics," by Mr. Arthur Radford, B.Sc., University College, Nottingham.
Mar. 21st. "Costing," by Mr. John W. Mee, A.S.A.A.

The meetings will be held at 6.30 p.m., at the Reform Club, Victoria Street, Nottingham.

A DISCHARGE REDUCED.

In the Scottish Courts, Lord Moncrieff disposed of a case recently for the reduction of a discharge and assignation by a motor hirer in favour of an insurance company. The action was at the instance of a creditor against his debtor (Tweedie) and the Anglian Insurance Company. The defender was the owner of a motor bus which he used for the carriage of passengers between Glasgow and Balloch. The pursuer's wife was knocked down by Tweedie's bus, and sustained injuries from which she died. The bus proprietor was insured against, *inter alia*, third party risks with the Anglian Insurance Company. He intimated to them the accident, and also intimated a claim against himself, subsequently made by the pursuer. The law agents of the insurance company got into touch with the pursuer, and made an offer of £200 in settlement of his claim, which was refused. The insurance company afterwards intimated to the defender that they repudiated liability and the defender's agents withdrew from the case. The pursuer then raised an action against Tweedie, and obtained decree for £500, and used arrestments. It later appeared that the insurance company had obtained a document from Tweedie which contained an admission of a defective brake, and that the bus was in an unsafe condition at the time of the accident, and Tweedie accepted repudiation by the company; and further, in consideration of an *ex gratia* payment (ascertained to be £75) paid to him by the company, discharged the company of all his claims under the policy in respect of the accident. Disregarding this discharge and founding on his arrestment, the pursuer raised an action of furthcoming against the insurance company as arrestees and Tweedie as the common debtor. In their defences, the insurance company founded on the discharge granted by Tweedie, and on the application of the pursuer, the action was sisted to allow the pursuer to take proceedings for the reduction of the discharge which he challenged both at common law and under the Statute of 1621 as an alienation in fraud of creditors.

His Lordship repelled the pursuer's plea based on the Act of 1621, and said it remained only to consider whether the evidence established the conditions of fact which were required at common law. In order to support his plea, the pursuer required to prove (1) that on January 24th, 1930, when he executed the discharge, the defender Tweedie was insolvent; (2) that he remained insolvent at the date of challenge; and (3) that the discharge was granted without adequate consideration received by Tweedie and without true, just, or necessary cause. In his Lordship's opinion, the pursuer had succeeded both in the positive and in the negative proof. His Lordship was further of opinion that the pursuer had succeeded in proving that the £75 paid to Tweedie as the consideration of the discharge was not adequate consideration, and did not furnish true, just, or necessary cause. As to the condition of the bus, his Lordship was of opinion that the insurance company, on whom he had laid the onus of proof, had failed to prove that there was any mechanical defect in the bus until after the accident, and that the insurance company had failed to show that at the time they took from Tweedie a discharge of their liability to indemnify him they were justified even *primâ facie* in repudiating their obligations under the policy. If, on the contrary, they were liable in the indemnity, it was clear (if only from their own offer to the pursuer of £200) that a payment of £75 was an inadequate consideration for the discharge.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Glasgow Municipal Employees.

An interesting return was made by the City Chamberlain recently, in which the number of employees of the Glasgow Corporation, at May 31st, were given as 38,152, with an annual wage bill of £4,350,089. The total number of employees is less by 593 than the previous year, but the Education Department shows an increase of 114 teachers over the previous year, making a total of 5,590. The total wage bill of the teachers amounts to £1,853,448. The members of the police force numbered 2,249.

Glasgow Chamber of Commerce.

The Glasgow Chamber of Commerce is the oldest institution of its kind in Great Britain. Last month it celebrated its **150th** anniversary, and the importance of the event was recognised by the Association of British Chambers of Commerce, which held their annual meeting in the city on September 14th. A very interesting and informative souvenir number of the Glasgow Chamber's *Monthly Journal* was issued in connection with the occasion. Contributions by authorities connected with the various spheres of industry—commerce, literary and academic—dealt with the different aspects of the story of Glasgow during the century and a half which has passed since the Chamber was first formed. This period was undoubtedly richer in achievement in these spheres than any other period in the history of the city, and the souvenir number presented in compact but vivid and attractive manner the account of Glasgow's rise to the proud position of Second City of the Empire.

In connection with the 150th anniversary, the President of the Chamber received a gracious message from His Majesty the King.

The souvenir number and the various arrangements connected with the functions arising out of the meetings of the Association in Glasgow were ably carried through by Mr. Thomas Cameron, O.B.E., Secretary of the Glasgow Chamber.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B. :—

T.L.R., *Times Law Reports ; The Times, The Times* Newspaper ; L.J., *Law Journal ;* L.J.N., *Law Journal* Newspaper ; L.T., *Law Times ;* L.T.N., *Law Times* Newspaper ; S.J., *Solicitors' Journal ;* W.N., *Weekly Notes ;* S.C., *Session Cases (Scotland) ;* S.L.T., *Scots Law Times ;* I.L.T., *Irish Law Times ;* J.P., *Justice of the Peace (England) ;* L.G.R., *Knight's Local Government Reports ;* B.& C.R., *Bankruptcy and Company Cases.*

The other abbreviations used in modern reports are H.L., House of Lords ; A.C., Appeal Court (House of Lords and Privy Council) ; C.A., Court of Appeal ; Ch., Chancery Division ; K.B., King's Bench Division ; P., Probate, Divorce and Admiralty Division ; C.S., Court of Session (Scotland) ; J., Mr. Justice (King's Bench or Chancery) ; L.J., Lord Justice ; L.C., Lord Chancellor ; M.R., Master of the Rolls ; N.I., Northern Ireland ; P., President of Probate, Divorce and Admiralty.]

EXECUTORSHIP LAW AND TRUSTS.

In re Collings.

Meaning of "Money."

A testatrix by her will left all she possessed to her brother and two sisters. The will then proceeded, "all my money left to brother and sisters unused at their death is to go to a good lifeboat society." The brother predeceased the testatrix.

It was held that the word "money" meant money in the strict legal sense, *i.e.* cash in hand and money on current account at the bank, but, following *Manning* v. *Purcell* (1855), the term also included money on deposit account.

(Ch. ; (1933) W.N., 183.)

INSOLVENCY.

In re Tooth.

Bill of Sale.

Luxmoore (J.) held that the transferee of a bill of sale who has taken possession of the chattels has a good title against the trustee in bankruptcy of the grantor, notwithstanding that the registration of the bill of sale had not been renewed.

(Ch. ; (1933) L.J.N., 137.)

REVENUE.

Attorney-General v. De Trafford.

Succession Duty.

The Court of Appeal held that where a tenant in tail in remainder executes a disentailing deed and joins in a deed of resettlement, his successors, on the death of his predecessor, the tenant-for-life, derive their succession not from the ex-tenant in tail but from his predecessor, and the rate of succession duty is to be calculated on this basis.

(C.A. ; (1933) 49 T.L.R., 577.)

Attorney-General v. Southport Corporation.

Entertainments Duty.

The sea-bathing lake and grounds belonging to the Southport Corporation, in addition to the lake and dressing accommodation for swimmers, for which an admission fee was charged, included additional facilities for non-bathers, such as terraces with seating accommodation giving a view of the bathing lake and the adjoining grounds, a café, &c. The non-bathers were charged for admission. The swimming, which was not organised, was by people who paid to swim for their own pleasure and benefit. There was no band.

It was held that as the swimming was not an "entertainment" within the meaning of sect. 1 (6) of the Finance (New Duties) Act, 1916, and that the non-bathers were not, therefore, "spectators of an entertainment" so as to render the charges of admission to them subject to entertainments duty. "Entertainment" means something in the nature of an organised entertainment.

(K.B. ; (1933) 49 T.L.R., 584.)

Robinson v. Corry.

Civil Servant Employed Abroad.

An established civil servant employed under the Admiralty was appointed by the Lords Commissioners of the Admiralty to a post at H.M. Naval Base, Singapore. While resident there he was paid the salary appropriate to his rank, and in addition a "Colonial allowance." During part of the time he was provided with an official house ; when not so provided, he received an allowance in lieu of it.

It was held (1) that he was assessable to income tax under Schedule E ; (2) that the Colonial allowance and house allowance, as well as the salary, must be brought into charge, and were not deductible as expenses ; (3) that the value of the official house was not income, and was not to be brought into charge.

(K.B. ; (1933) 49 T.L.R., 590.)